THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Power Assets Holdings Limited (the "**Company**"), you should immediately forward this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and is being provided to you solely for the purpose of considering the ordinary resolution to be voted upon at the EGM of the Company to be held on 6 January 2014. This circular does not constitute an offer to issue or sell or the invitation of an offer to acquire, purchase or subscribe for securities in the United States or any other jurisdiction, nor is it intended to invite any such offer or invitation. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"). The securities described herein have not been and will not be registered under the U.S. Securities Act.

The implementation of the Proposed Spin-off and the Global Offering (each as defined herein) is subject to, among other things, the Stock Exchange granting approval for the listing of, and permission to deal in, all of the Share Stapled Units (as defined herein). There is no certainty as to whether, and if so when, the Proposed Spin-off and the Global Offering will take place. Accordingly, shareholders, holders of other securities of the Company and potential investors in the securities of the Company should exercise caution when dealing in or investing in the shares or other securities of the Company.

Power Assets Holdings Ltd.
電能實業有限公司

Incorporated in Hong Kong with limited liability
Stock Code: 6

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE GROUP'S HONG KONG ELECTRICITY BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Independent Financial Adviser
to the Independent Board Committee and to the Shareholders

SOMERLEY LIMITED

A letter from the Board to the Shareholders is set out on pages 14 to 61 of this circular.

A letter from the Independent Board Committee to the Shareholders, containing its advice and recommendation in relation to the Proposed Spin-off, is set out on page 62 of this circular.

A letter from Somerley, the Independent Financial Adviser to the Independent Board Committee and the Shareholders, containing its advice and recommendation in relation to the Proposed Spin-off, is set out on pages 63 to 92 of this circular.

A notice convening the EGM to be held at the Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Monday, 6 January 2014 at 10:30 a.m. is set out on pages 230 to 232 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM or any adjournment thereof in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the registered office of the Company at 44 Kennedy Road, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire.

16 December 2013

This circular has been printed in both the English and Chinese languages. If Shareholders who have received an English copy of this circular wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This circular has been posted in both the English and Chinese languages on the Company's website at www.powerassets.com and on the Stock Exchange's website at www.hkexnews.hk. lf, for any reason, Shareholders who have elected (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to this circular, they may request for a printed copy be sent to them, free of charge, by mail.

Shareholders may at any time elect to receive all future corporate communications either in printed form or through the Company's website by writing to the Company at its registered office at 44 Kennedy Road, Hong Kong or to the Company's share registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by sending an email to the Company's email address at mail@powerassets.com.

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Latest time for lodging transfers of Shares with the share registrar to be eligible for attending and voting at the EGM	4:30 p.m. on Tuesday, 31 December 2013
Register of members of the Company closes	Thursday, 2 January 2014 to Monday, 6 January 2014 (both days inclusive)
Latest time for return of proxy forms in respect of the EGM	10:30 a.m. on Saturday, 4 January 2014
Record date for determining eligibility to attend and vote at the EGM	Monday, 6 January 2014
EGM	10:30 a.m. on Monday, 6 January 2014
Register of members of the Company re-opens	Tuesday, 7 January 2014
Last day for dealing in Shares on a cum-entitlement basis to the Preferential Offering *(Note)*	Tuesday, 7 January 2014
First day for dealing in Shares on an ex-entitlement basis to the Preferential Offering *(Note)*	Wednesday, 8 January 2014
Latest time for lodging transfers of Shares to qualify for the Preferential Offering *(Note)*	4:30 p.m. on Thursday, 9 January 2014
Register of members of the Company closes *(Note)*	Friday, 10 January 2014
Record Date for determining the Assured Entitlement *(Note)*	Friday, 10 January 2014
Register of members of the Company re-opens	Monday, 13 January 2014

All times refer to Hong Kong local time. Please note that the above timetable may be subject to further changes when the timetable for the Proposed Spin-off is finalised. Further announcement(s) will be made by the Company as and when necessary.

Note: If the Board determines another date for the closure of the register of members of the Company in order to determine the Assured Entitlement, a further announcement will be made by the Company to inform the Shareholders.

In this circular, the following expressions bear their respective meanings below unless the context otherwise requires:

"**2013 Profit Forecast**"	the forecast consolidated profit attributable to the equity shareholders of HEC for the financial year ending 31 December 2013, as set out under the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in the "*Letter from the Board*" of this circular
"**2014 Profit Projection**"	the projected consolidated profit attributable to the holders of Share Stapled Units for the period from the Listing Date to 31 December 2014, as set out under the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in the "*Letter from the Board*" of this circular
"**2014-2018 Development Plan**"	the Development Plan for the period from 1 January 2014 to 31 December 2018
"**Additional Reserved Share Stapled Units**"	has the meaning ascribed to it under the section headed "*Preferential Offering*" in the "*Letter from the Board*" of this circular
"**Adjustments**"	has the meaning ascribed to it under the section headed "*Distributions*" in the "*Letter from the Board*" of this circular
"**Assured Entitlement**"	the entitlement of the Qualifying Shareholders to apply for the Reserved Share Stapled Units on an assured basis pursuant to the Preferential Offering determined on the basis of their respective shareholdings in the Company on the Record Date
"**Available Reserved Share Stapled Units**"	has the meaning ascribed to it under the section headed "*Preferential Offering*" in the "*Letter from the Board*" of this circular
"**Average Net Fixed Assets**"	the average of the opening and closing balances of the Net Fixed Assets
"**Average Renewables Net Fixed Assets**"	the average of the opening and closing balances of the Renewables Net Fixed Assets
"**Basic Tariff Rate**"	for any year, the figures in cents per kWh obtained by dividing HEC's total revenues from sales of electricity to customers in Hong Kong (excluding rebates and Fuel Cost Account Adjustment) by the corresponding number of units (in kWh) sold
"**Beneficial Shareholder**"	any beneficial owner of Shares whose Shares are registered, as shown in the register of members of the Company, in the name of a registered Shareholder on the Record Date

"**BLUE Application Form(s)**"	the application form(s) to be sent to Qualifying Shareholders to subscribe for the Reserved Share Stapled Units pursuant to the Preferential Offering
"**Blue Form eIPO**"	the application for Reserved Share Stapled Units to be issued in a Qualifying Shareholder's own name by submitting applications online through the designated website of the **Blue Form eIPO** at www.eipo.com.hk
"**Board**"	the board of directors of the Company
"**business day**"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"**BVI**"	British Virgin Islands
"**CCASS**"	the Central Clearing and Settlement System established and operated by HKSCC
"**Century Rank**"	Century Rank Limited, a company incorporated in the BVI with limited liability on 30 August 2013 and a wholly-owned subsidiary of HKEIL
"**CKH**"	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 0001)
"**CKI**"	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1038)
"**Company**"	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 0006)
"**Completion**"	completion of the Disposal
"**Completion Date**"	the date on which the Completion takes place
"**connected persons**"	has the meaning ascribed to it in the Listing Rules
"**Consideration Share Stapled Units**"	the Share Stapled Units to be issued to Quickview (at the direction of the Company) as partial settlement of the Disposal Consideration, which is expected to represent 30% to 49.9% of the total Share Stapled Units in issue immediately after the Global Offering (regardless of whether the Over-allotment Option is exercised or not)

"**Development Plan**"	the development plan prepared by HEC pursuant to the Scheme of Control, which relates to the provision and future expansion of its electricity supply system
"**Directors**"	the directors of the Company
"**Disposal**"	the disposal of the entire issued share capital in HEC by the Company to Treasure Business pursuant to the Sale and Purchase Agreement
"**Disposal Consideration**"	the consideration for the Disposal, as more particularly described under the section headed "*Proposed Spin-off*" in the "*Letter from the Board*" of this circular
"**Disposal Group**"	HEC and HEFL
"**EGM**"	the extraordinary general meeting of the Company to be held on Monday, 6 January 2014 at 10:30 a.m. for the purpose of considering and, if thought fit, approving the Proposed Spin-off and all matters incidental thereto
"**Exchange Right**"	the right of the registered holders of Share Stapled Units to be set out under the Trust Deed, exercisable by passing an Extraordinary Resolution of Registered Holders of Units, to require all of the Share Stapled Units in issue to be exchanged for the Ordinary Shares held by the Trustee-Manager which are Linked to the Units which are components of the Share Stapled Units. If the Exchange Right is exercised, the Trust Deed would terminate, the Units and the Preference Shares would be exchanged and cancelled and the former registered holders of Share Stapled Units would hold listed and, subject to the prior approval of the Stock Exchange, tradeable Ordinary Shares
"**Excluded Amounts**"	has the meaning ascribed to it under the section headed "*Distributions*" in the "*Letter from the Board*" of this circular
"**Existing Non-HK Territories**"	Australia, Canada, France, Germany, Indonesia, Ireland, the Macau Special Administrative Region of the People's Republic of China, Malaysia, Malta, the Netherlands, New Zealand, Pakistan, Panama, the Philippines, Portugal, the PRC, Singapore, Taiwan, Thailand, the United Kingdom and the United States
"**Extraordinary Resolution of Registered Holders of Units**"	a resolution proposed and passed as such by a majority consisting of 75% or more of the total number of votes cast for and against such resolution at a meeting of Registered Holders of Units duly convened and held in accordance with the Trust Deed

"**Financial Adviser**"	The Hongkong and Shanghai Banking Corporation Limited, the financial adviser to the Company in connection with the 2013 Profit Forecast and the 2014 Profit Projection included in this circular
"**Fixed Assets**"	HEC's electricity related investments in land, buildings, plant, equipment and capitalised refurbishment and improvement works and, subject to the accounting policies as set out in the Scheme of Control, includes assets in the course of construction, payments on account, goods in transit and capital stores
"**Forecast Period**"	the financial year ending 31 December 2013
"**Fuel Clause Charge**"	the charge passed on to customers through the Fuel Clause Recovery Account
"**Fuel Clause Rebate**"	the rebate passed on to customers through the Fuel Clause Recovery Account
"**Fuel Clause Recovery Account**"	the account maintained by HEC under the Scheme of Control through which the difference between the standard cost of fuel as agreed between the Hong Kong Government and HEC and the actual cost of fuel to HEC is captured and passed on to customers by way of rebates or charges
"**Fuel Cost Account Adjustment**"	the difference between the standard cost of fuel as agreed between the Hong Kong Government and HEC and the actual cost of fuel to HEC
"**Global Offering**"	the Hong Kong Public Offering and the International Offering (including the Preferential Offering)
"**Gross Tariff Revenue**"	for any year means the total of the following items: (a) revenue of HEC from the sale of electricity to customers in Hong Kong in that year including transfers from/to the Fuel Clause Recovery Account, but without taking into account rebates; (b) the amounts benefiting HEC's customers in Hong Kong in that year specified by and calculated in accordance with any agreement from time to time entered into between the Hong Kong Government and HEC in relation to the sale of electricity outside Hong Kong; (c) electricity related fees and other revenue derived from the use of Fixed Assets; and (d) unclaimed deposits from HEC's customers

"**Group**"	the Company and its subsidiaries, joint ventures and associates from time to time
"**Group Distributable Income**"	has the meaning ascribed to it under the section headed "*Distributions*" in the "*Letter from the Board*" of this circular
"**HEC**"	The Hongkong Electric Company, Limited, a limited liability company incorporated in Hong Kong, which is currently a wholly-owned subsidiary of the Company
"**HEC Loan Facility**"	a term loan facility in an aggregate principal amount equivalent to approximately HK$28.3 billion proposed to be made available to HEC by a syndicate of lenders, which is expected to be available partly in Hong Kong dollars and partly in United States dollars, in the proportions to be agreed between HEC and the lenders
"**HEFL**"	Hongkong Electric Finance Limited, a company incorporated in the BVI with limited liability, which is a wholly-owned subsidiary of HEC
"**HK Electric Investments**"	HK Electric Investments, a fixed single investment trust which is proposed to be constituted pursuant to the Trust Deed if the Proposed Spin-off proceeds, the trustee-manager of which will be the Trustee-Manager
"**HK$**"	Hong Kong dollars, the lawful currency of Hong Kong
"**HKEIL**"	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013, which is currently a wholly-owned subsidiary of the Company
"**HKEIL Group**"	HKEIL and its subsidiaries, as if the Reorganisation had been completed
"**HKEIL Loan Facility**"	a term loan facility in an aggregate principal amount equivalent to approximately HK$8.7 billion proposed to be made available to HKEIL by a syndicate of lenders, which is expected to be available partly in Hong Kong dollars and partly in United States dollars, in the proportions to be agreed between HKEIL and the lenders
"**HKEIL's Articles**"	the amended and restated articles of association of HKEIL proposed to be adopted by HKEIL, as amended from time to time
"**HKFRS**"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

"**HKSCC**"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"**HKSCC Nominees**"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC, in its capacity as nominee for HKSCC (or any successor thereto) as operator of CCASS and any successor, replacement or assign of HKSCC Nominees Limited as nominee for the operator of CCASS
"**Hong Kong**"	the Hong Kong Special Administrative Region of the People's Republic of China
"**Hong Kong Electricity Business**"	the business of generating, transmitting, distributing and supplying electricity in Hong Kong carried on by HEC
"**Hong Kong Government**"	the Government of Hong Kong
"**Hong Kong Offer Share Stapled Units**"	the Share Stapled Units proposed to be initially offered jointly by HK Electric Investments and HKEIL pursuant to the Hong Kong Public Offering (subject to reallocation)
"**Hong Kong Public Offering**"	the proposed offer of the Hong Kong Offer Share Stapled Units to the public in Hong Kong for subscription at the Offer Price
"**HWL**"	Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 0013)
"**Independent Board Committee**"	the independent committee of the Board comprising Mr. Holger KLUGE, Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin, all being independent non-executive Directors, established by the Company to consider the Proposed Spin-off and advise Shareholders on the Proposed Spin-off
"**Independent Financial Adviser" or "Somerley**"	Somerley Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off
"**Inter-company Loans**"	the amounts which are owed by HEC to the Remaining Group at the relevant time, including, without limitation, the outstanding loan capital, other outstanding loans from the Company and dividends declared by HEC but not yet paid to the Company

"**International Offer Share Stapled Units**"	the Share Stapled Units proposed to be offered jointly by HK Electric Investments and HKEIL pursuant to the International Offering (subject to reallocation) together with, where relevant, additional Share Stapled Units which may be sold by Quickview pursuant to any exercise of the Over-allotment Option
"**International Offering**"	the proposed offer of the International Offer Share Stapled Units (i) in the United States solely to QIBs pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S, for subscription or purchase (as the case may be) at the Offer Price (including the Preferential Offering), in each case on and subject to the terms and conditions of the relevant underwriting agreement
"**Joint Global Coordinators**"	Goldman Sachs (Asia) L.L.C. and The Hongkong and Shanghai Banking Corporation Limited
"**Joint Sponsors**"	Goldman Sachs (Asia) L.L.C. and HSBC Corporate Finance (Hong Kong) Limited
"**kWh**"	kilowatt-hour, a unit of energy, which is the standard unit of energy used in the electric power industry. 1 kWh = 3.6 million joules
"**L10 Project**"	the proposed construction of a new gas-fired power plant unit (L10) at the Lamma Power Station of HEC, which is scheduled to commence in 2016. It is estimated that the capital expenditure for the L10 Project in respect of the period covered by the 2014-2018 Development Plan will be approximately HK$3.0 billion. The L10 Project was included on a provisional basis in the 2014-2018 Development Plan as approved by the Executive Council, with the actual commencement of the L10 Project and actual inclusion in the 2014-2018 Development Plan of the estimated capital expenditure for it subject to written confirmation from the Hong Kong Government to HEC. For further details, see the section headed "*Overview of the Remaining Businesses and Business of the HKEIL Group — Scheme of Control in respect of the Hong Kong Electricity Business*" in the "*Letter from the Board*" of this circular
"**Latest Practicable Date**"	12 December 2013, being the latest practicable date prior to the bulk printing of this circular for the purpose of ascertaining certain information contained in this circular

"**Linked**"	the matching and linking of each Unit with and to a specifically identified Ordinary Share held by the Trustee-Manager (in its capacity as trustee-manager of HK Electric Investments), so that the Registered Holder of the Unit has a beneficial interest in the specifically identified Ordinary Share and any transfer of the Unit also transfers the beneficial interest in the Ordinary Share, in accordance with the Trust Deed, and "**Linking**" shall be construed accordingly
"**Listing**"	the proposed listing of the Share Stapled Units on the Main Board of the Stock Exchange
"**Listing Committee**"	the listing committee of the Stock Exchange
"**Listing Date**"	the date on which the Share Stapled Units are first listed and from which dealings in the Share Stapled Units are permitted to take place on the Main Board of the Stock Exchange
"**Listing Rules**"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"**Major JVs**"	(a) UK Power Networks Holdings Limited; (b) Northern Gas Networks Holdings Limited; (c) West Gas Networks Limited and Western Gas Networks Limited; (d) Guangdong Zhuhai Power Station Company Limited; (e) Guangdong Zhuhai Jinwan Power Company Limited and (f) Wellington Electricity Distribution Network Holdings Limited
"**Minimum Trust Group Market Capitalisation**"	the minimum Trust Group Market Capitalisation required to be achieved, being HK$48 billion, and if this cannot be achieved, the Proposed Spin-off will not proceed (unless further approved by Shareholders)
"**Net Fixed Assets**"	the cost of the Fixed Assets, less depreciation on the Fixed Assets which is charged on a straight line basis in accordance with the Scheme of Control
"**Non-Competition Undertaking**"	has the meaning ascribed to it under the section headed "*Overview of the Remaining Businesses and Business of the HKEIL Group*" in the "*Letter from the Board*" of this circular
"**Non-Qualifying Shareholders**"	Shareholders whose names appear in the register of members of the Company on the Record Date and whose addresses as shown in such register are in any of the Specified Territories and any Shareholders or Beneficial Shareholders at that time who are otherwise known by the Company to be resident in any of the Specified Territories

"**Offer Price**"	the final offer price per Offer Share Stapled Unit (exclusive of brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%), at which the Share Stapled Units are to be issued or sold pursuant to the Global Offering
"**Offer Share Stapled Units**"	the Hong Kong Offer Share Stapled Units, the Reserved Share Stapled Units and the International Offer Share Stapled Units, together with, where relevant, any additional Share Stapled Units which may be sold by Quickview pursuant to any exercise of the Over-allotment Option
"**Ordinary Shares**"	ordinary shares with a nominal value of HK$0.0005 each in the share capital of HKEIL conferring the rights set out in HKEIL's Articles
"**Over-allotment Option**"	the option expected to be granted by Quickview to the underwriters of the International Offering, exercisable by the Joint Global Coordinators (on behalf of such underwriters), pursuant to which Quickview may be required to sell additional Share Stapled Units (representing not more than approximately 15% of the number of Offer Share Stapled Units initially being offered under the Global Offering) at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any
"**Permitted Return**"	the permitted return of HEC under the Scheme of Control for each year in respect of its electricity related operations
"**PN15**"	Practice Note 15 of the Listing Rules
"**PRC**" or "**China**"	the People's Republic of China, but for the purposes of this circular only, references in this circular to PRC or China exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"**Preference Shares**"	the preference shares with a nominal value of HK$0.0005 each in the share capital of HKEIL conferring the rights set out in HKEIL's Articles
"**Preferential Offering**"	the preferential offering to the Qualifying Shareholders of Reserved Share Stapled Units as an Assured Entitlement and to satisfy applications for excess Reserved Share Stapled Units, out of the Share Stapled Units being offered under the International Offering at the Offer Price, on and subject to the terms and conditions to be set out in the Prospectus and in the BLUE Application Form
"**Promissory Note**"	has the meaning ascribed to it under the section headed "*Reorganisation*" in the "*Letter from the Board*" of this circular

"**Proposed Spin-off**"	the proposed spin-off of the Hong Kong Electricity Business by the Company and the separate listing of the Share Stapled Units on the Main Board of the Stock Exchange
"**Prospectus**"	the prospectus to be jointly issued by HK Electric Investments and HKEIL in connection with the Global Offering
"**QIB**"	a qualified institutional buyer as defined in Rule 144A
"**Qualifying Shareholders**"	Shareholders, other than Non-Qualifying Shareholders, whose names appear in the register of members of the Company on the Record Date
"**Quickview**"	Quickview Limited, a company incorporated in the BVI with limited liability on 5 September 2013 and a wholly-owned subsidiary of the Company
"**Rate Reduction Reserve**"	the account established under the Scheme of Control which relates to the payment in each year of a charge equal to the average one month Hong Kong Interbank Offered Rate per annum multiplied by the average of the opening and closing balances of the Tariff Stabilisation Fund for that year
"**Record Date**"	Friday, 10 January 2014 (or such later date as may be determined and announced by the Company), being the record date for determining the Assured Entitlement of the Qualifying Shareholders to the Reserved Share Stapled Units
"**Registered Holders of Units**"	persons registered at the relevant time in the units register as holders of Units, including persons so registered as "Joint Registered Holders of Units"; and the expression "**Registered Holder of a Unit**" and similar expressions shall be construed accordingly
"**Regulation S**"	Regulation S under the U.S. Securities Act
"**Relevant Enterprise Value Threshold**"	has the meaning ascribed to it under the section headed "*Proposed arrangement in relation to the Proposed Spin-off with CKI*" in the "*Letter from the Board*" of this circular
"**Relevant Persons**"	the Financial Adviser, the Independent Financial Adviser, the Joint Global Coordinators, the joint bookrunners, the Joint Sponsors and the underwriters of the Global Offering, any of their or the Trustee-Manager's or HKEIL's respective directors, officers or representatives or any other person involved in the Global Offering
"**Remaining Businesses**"	the remaining businesses of the Group immediately after the Proposed Spin-off
"**Remaining Group**"	the Group excluding the Disposal Group

"**Renewables Net Fixed Assets**"	the Net Fixed Assets in so far as they are attributable to HEC's renewable energy infrastructure investments within Hong Kong, including the electricity generation systems employing certain renewable energy or such other secure and inexhaustible energy sources mutually agreed between HEC and the Hong Kong Government, and dedicated transmission and distribution assets that are used for connecting such renewable energy systems to the main electricity grid
"**Reorganisation**"	the reorganisation of the HKEIL Group (including the Disposal) in preparation for the Listing, principal details of which are summarised under the section headed "*Proposed Spin-off — Reorganisation*" in the "*Letter from the Board*" of this circular
"**Reserved Share Stapled Units**"	the Share Stapled Units proposed to be offered jointly by HK Electric Investments and HKEIL to Qualifying Shareholders pursuant to the Preferential Offering as an Assured Entitlement, which are to be allocated out of the Share Stapled Units to be offered under the International Offering
"**Rule 144A**"	Rule 144A under the U.S. Securities Act
"**Sale and Purchase Agreement**"	the conditional sale and purchase agreement proposed to be entered into among the Company (as vendor), Treasure Business (as purchaser), HKEIL and the Trustee-Manager in relation to the Disposal if the approval of the Shareholders for the Proposed Spin-off is obtained at the EGM, the principal terms of which are summarised under the section headed "*Proposed Spin-off*" in the "*Letter from the Board*" of this circular
"**Scheme of Control**"	the scheme of control agreement entered into on 7 January 2008 among HEC, the Company and the Hong Kong Government which regulates the generation, transmission, distribution and supply of electricity by HEC in Hong Kong, a current copy of which can be obtained from the website of Environment Bureau of the Hong Kong Government at www.enb.gov.hk and the website of HEC at www.hkelectric.com
"**SFC**"	the Securities and Futures Commission of Hong Kong
"**SFO**"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time

"**Share Stapled Units**"	a combination of the following securities or interests in securities which, subject to the provisions of the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (i) a Unit; (ii) a beneficial interest in a specifically identified Ordinary Share Linked to the Unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of HK Electric Investments); and (iii) a specifically identified Preference Share Stapled to the Unit
"**Shareholders**"	the shareholders of the Company
"**Shares**"	ordinary shares of HK$1.00 each in the capital of the Company
"**Specified Territories**"	Australia, Germany, Indonesia, Ireland, Malaysia, Malta, the Netherlands, New Zealand, Pakistan, Panama, Portugal, Singapore, Thailand, the United Kingdom and the United States and such other non-Hong Kong territories which in the view of the Directors, the Trustee-Manager and HKEIL should be regarded as "Specified Territories" for the purpose of the Preferential Offering on the basis permitted under Rule 13.36(2) of the Listing Rules
"**Stapled**"	the means by which each Unit is attached to a specifically identified Preference Share so that one may not be dealt with without the other, in accordance with the Trust Deed, and "**Stapling**" shall be construed accordingly
"**Stock Exchange**"	The Stock Exchange of Hong Kong Limited
"**Tariff Stabilisation Adjustments**"	for the purposes of calculating amounts to be transferred to or from the Tariff Stabilisation Fund, means the aggregate of the total operating costs, Permitted Return (after taking into account deduction of certain interest on borrowed capital for the financing of Fixed Assets and certain other deductions and adjustments) and Scheme of Control taxation charges pursuant to the Scheme of Control
"**Tariff Stabilisation Fund**"	the fund established pursuant to the Scheme of Control to accumulate and provide funds to ameliorate tariff adjustments
"**Track Record Period**"	the three years ended 31 December 2012 and the nine months ended 30 September 2013

"**Treasure Business**"	Treasure Business Limited, a company incorporated in the BVI with limited liability on 10 July 2013 and a wholly-owned subsidiary of Century Rank
"**Trust Deed**"	the trust deed to be entered into between the Trustee-Manager and HKEIL to constitute HK Electric Investments, if the Proposed Spin-off proceeds
"**Trust Distributable Income**"	has the meaning ascribed to it under the section headed "*Distributions*" in the "*Letter from the Board*" of this circular
"**Trust Group**"	HK Electric Investments and HKEIL Group
"**Trust Group Market Capitalisation**"	the market capitalisation of the Trust Group immediately upon completion of the Global Offering, calculated by multiplying (i) the total number of Share Stapled Units in issue immediately upon completion of the Global Offering by (ii) the Offer Price
"**Trustee-Manager**"	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013, which is an indirectly wholly-owned subsidiary of the Company, in its capacity as trustee-manager of HK Electric Investments
"**Unit**"	an undivided interest in HK Electric Investments, which confers the rights stated in the Trust Deed as being conferred by a Unit (whether in its own right or as a component of a Share Stapled Unit)
"**United States**"	the United States of America
"**US$**" or "**United States dollars**"	United States dollars, the lawful currency of the United States
"**U.S. Securities Act**"	the United States Securities Act of 1933, as amended
"**%**"	per cent

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電能實業有限公司

Incorporated in Hong Kong with limited liability
Stock Code: 6

Executive Directors:
Mr. FOK Kin Ning, Canning *(Chairman)*
Mr. WAN Chi Tin *(Group Managing Director)*
Mr. CHAN Loi Shun *(also Alternate Director to Mr. KAM Hing Lam)*
Mrs. CHOW WOO Mo Fong, Susan *(also Alternate Director to Mr. FOK Kin Ning, Canning and Mr. Frank John SIXT)*
Mr. Andrew John HUNTER
Mr. KAM Hing Lam
Mr. LI Tzar Kuoi, Victor
Mr. Frank John SIXT
Mr. YUEN Sui See

Non-executive Directors:
Mr. TSO Kai Sum *(Deputy Chairman and Senior Adviser to the Board)*
Mr. Ronald Joseph ARCULLI
Mr. Neil Douglas MCGEE

Independent non-executive Directors:
Mr. FONG Chi Wai, Alex
Mr. Holger KLUGE
Mr. LEE Lan Yee, Francis
Mr. George Colin MAGNUS
Mr. Ralph Raymond SHEA
Mr. WONG Chung Hin

Registered Office:
44 Kennedy Road, Hong Kong

16 December 2013

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE GROUP'S HONG KONG ELECTRICITY BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 27 September 2013, in which the Board announced, among other things, that the Stock Exchange had confirmed that the Company may proceed with the Proposed Spin-off, and that the Trustee-Manager, as the proposed trustee-manager of HK Electric Investments, and HKEIL submitted, through the Joint Sponsors, a listing application (Form A1) to the Stock Exchange on the same day for the listing of, and permission to deal in, the Share Stapled Units proposed to be jointly issued by HK Electric Investments and HKEIL on the Main Board of the Stock Exchange.

As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Proposed Spin-off is or are expected to be 75% or more, the Proposed Spin-off, if it proceeds, will constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

In accordance with the requirements of paragraph 3(e)(4) of PN15 and Rule 13.39(6) and (7) of the Listing Rules:

(a) an Independent Board Committee comprising Mr. Holger KLUGE, Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin, all being independent non-executive Directors, has been established by the Company to consider the Proposed Spin-off, and to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote at the EGM in respect of the ordinary resolution to approve the Proposed Spin-off, taking into account the recommendation of the Independent Financial Adviser in that regard; and

(b) Somerley has been appointed as an independent financial adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote at the EGM in respect of the ordinary resolution to approve the Proposed Spin-off.

The purposes of this circular are to:

(i) provide the Shareholders with information on (1) the background to, the reasons for, and the benefits of, the Proposed Spin-off (together with such other information relating to the Proposed Spin-off as required by the Listing Rules for a very substantial disposal of the Company) and (2) (if the Proposed Spin-off proceeds) the entitlement of Qualifying Shareholders to participate in the Preferential Offering;

(ii) set out the opinion of the Independent Board Committee on the terms of the Proposed Spin-off, which is contained in the "*Letter from the Independent Board Committee*" on page 62 of this circular;

(iii) set out the letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Shareholders regarding the terms of the Proposed Spin-off, in the "*Letter from the Independent Financial Adviser*" on pages 63 to 92 of this circular; and

(iv) give the Shareholders notice of the EGM at which an ordinary resolution will be proposed for the Shareholders to consider and, if thought fit, approve the Proposed Spin-off (provided that the Minimum Trust Group Market Capitalisation is achieved) and the transactions related thereto.

Goldman Sachs (Asia) L.L.C. and HSBC Corporate Finance (Hong Kong) Limited (named herein in alphabetical order) have been appointed by the Trustee-Manager and HKEIL as the joint sponsors for the Listing. The Hongkong and Shanghai Banking Corporation Limited has also been appointed as the Financial Adviser of the Company.

The implementation of the Proposed Spin-off and the Global Offering is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied, including the approval of the Stock Exchange and the final decision of the Board and of the respective boards of directors of the Trustee-Manager and HKEIL, market conditions and other considerations. There is no certainty as to whether, and if so when, the Proposed Spin-off and the Global Offering will take place. The Board will not proceed with the Proposed Spin-off if the Minimum Trust Group Market Capitalisation cannot be achieved (unless further approved by Shareholders). Even if the approval of the Shareholders at the EGM is obtained and the Minimum Trust Group Market Capitalisation is achieved, the decision whether to proceed with the Proposed Spin-off will be at the discretion of the Directors, and, when doing so, the Directors will take into account all factors and other considerations they consider relevant, including prevailing market conditions, the Offer Price that can be achieved and whether the Company's expected gain from the Disposal will, in their view, maximise the benefits to the Company and the Shareholders. Accordingly, Shareholders, holders of other securities of the Company and potential investors in the securities of the Company should exercise caution when dealing in or investing in the shares or other securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their positions.

This circular is being provided to you solely for your consideration of the matters being determined at the EGM and is not intended to, and does not, constitute an offer to sell or an invitation to or a solicitation of an offer to subscribe or buy any Share Stapled Units in connection with the Global Offering or otherwise. Any such offer or solicitation will be made solely through a prospectus or offering circular in compliance with applicable laws and any decision to purchase or subscribe for Share Stapled Units in connection with the Global Offering or otherwise should be made solely on the basis of the information contained in the relevant prospectus or offering circular. Other than in Hong Kong and a proposed public offering without listing in Japan, no action has been or will be taken in any jurisdiction that would permit a public offering of the Share Stapled Units to be offered in the Global Offering in any jurisdiction where action for that purpose is required, including the United States.

PROPOSED SPIN-OFF

Overview of the Proposed Spin-off

The Proposed Spin-off involves the spin-off and separate listing of the Group's Hong Kong Electricity Business, which is operated by HEC, by way of the listing of the Share Stapled Units to be jointly issued by HK Electric Investments and HKEIL on the Main Board of the Stock Exchange.

The Proposed Spin-off will be conditional upon, among other things, (i) the approval of the Shareholders at a general meeting, (ii) the Listing Committee granting approval for the listing of, and permission to deal in, the Share Stapled Units on the Main Board of the Stock Exchange and such approval not having been withdrawn, and (iii) the obligations of the underwriters under the underwriting agreements to be entered into by, among others, the Trustee-Manager and HKEIL in respect of the Global Offering becoming unconditional and not having been terminated in accordance with their respective terms.

The Proposed Spin-off includes a Global Offering and it is anticipated that the total number of Share Stapled Units to be offered pursuant to the Global Offering will represent between approximately 50.1% and 70% of the Share Stapled Units in issue immediately upon completion of the Global Offering (regardless of whether the Over-allotment Option is exercised or not). It is intended that immediately following the completion of the Proposed Spin-off (regardless of whether the Over-allotment Option is exercised or not), the Company will have an interest in not more than 49.9% and at least 30% of the Share Stapled Units in issue, thereby providing the Company with exposure to a steady dividend stream. Accordingly, HEC will cease to be a subsidiary of the Company, and the Trust Group will be classified by the Company as an associate and accounted for in the Group's financial statements using the equity method of accounting.

In giving due regard to the interests of the Shareholders as required under PN15, it is intended that, if the Proposed Spin-off proceeds, Qualifying Shareholders will be provided with an Assured Entitlement to the Share Stapled Units in the Preferential Offering. It is expected that not less than 10% of the Share Stapled Units to be initially available under the Global Offering (prior to any exercise of the Over-allotment Option in connection with the International Offering) will be offered to the Qualifying Shareholders as an Assured Entitlement.

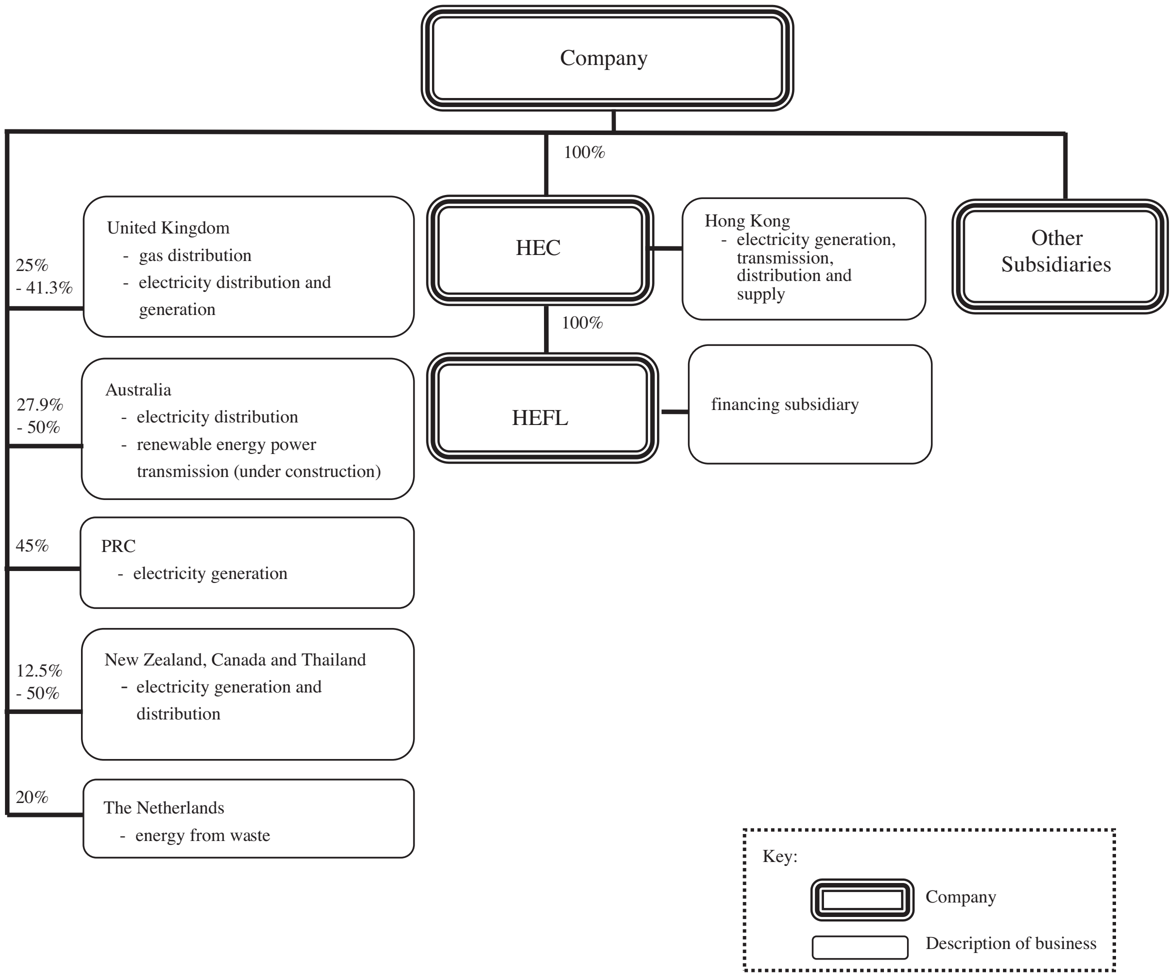
If the Proposed Spin-off is effected, the net proceeds from the issue of the Share Stapled Units pursuant to the Global Offering (which cannot be determined at this time) will be used by the Trust Group to fund part of the consideration for the acquisition of HEC from the Company as described below. The proceeds received by the Company from the Disposal will provide the Company with the financial strength to seek acquisitions in the global power sector and the Company expects to deploy such proceeds with the same prudent approach as in the past.

The Board believes that the Proposed Spin-off will bring clear commercial benefits to the Company as well as to the Trust Group. For details, please refer to the section headed "*Reasons for and Benefits of the Proposed Spin-off*" in this letter.

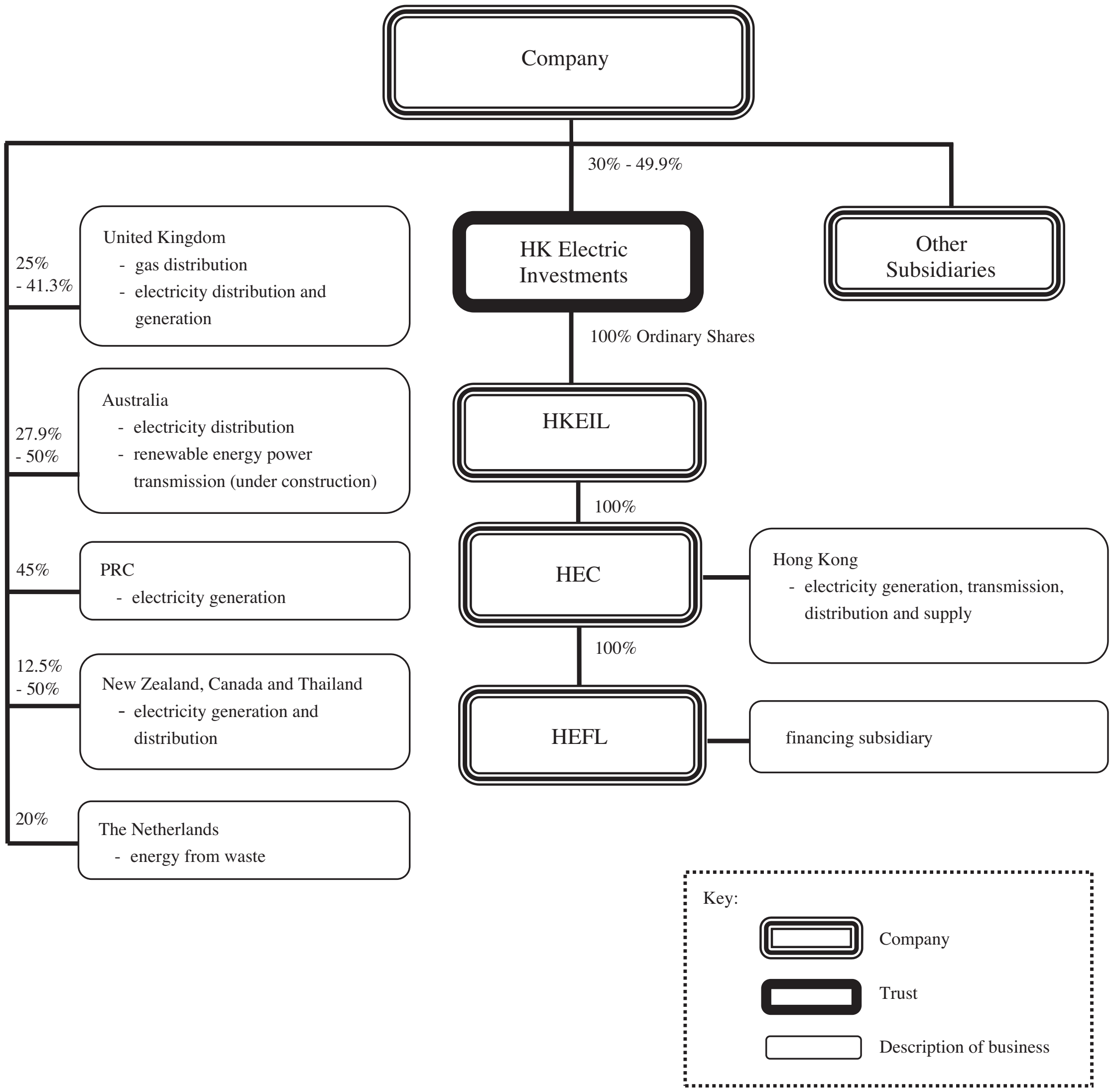
The Company intends to maintain at least the same amount of dividend distribution as in 2012 for the year 2013 and, following the Proposed Spin-off, the year 2014.

Simplified Group Structure Chart of the Group immediately prior to and after the Proposed Spin-off

Set out below is a simplified group structure chart of the Group immediately prior to the completion of the Proposed Spin-Off:



Set out below is a simplified group structure chart of the Group immediately after the completion of the Proposed Spin-Off:



Reorganisation

It is proposed that in connection with the Proposed Spin-off, a reorganisation (the "**Reorganisation**") will be implemented pursuant to which, among other things, (i) Quickview will transfer one Ordinary Share held by it to the Trustee-Manager (in its capacity as trustee-manager of HK Electric Investments) in consideration for HK$0.0005 which will be satisfied by HK Electric Investments issuing to Quickview one Unit linked to that Ordinary Share held by the Trustee-Manager and stapled to the one Preference Share held by Quickview to form one Share Stapled Unit in accordance with the Trust Deed and (ii) the entire shareholding interest in HEC, which directly owns the Hong Kong Electricity Business, will be disposed of by the Company to Treasure Business, an indirect wholly-owned subsidiary of HKEIL, in accordance with the Sale and Purchase Agreement to be entered into among the Company, Treasure Business, HKEIL and the Trustee-Manager.

Conditions to Completion

The Sale and Purchase Agreement will only be entered into if the approval of the Shareholders is obtained at the EGM. Completion under the Sale and Purchase Agreement will be conditional upon:

(a) the Listing Committee granting approval for the listing of, and permission to deal in, the Share Stapled Units in issue and to be issued pursuant to the Reorganisation and the Global Offering on the Main Board of the Stock Exchange and such approval not having been withdrawn immediately prior to 8:00 a.m. on the Listing Date;

(b) the Offer Price having been agreed among the Joint Global Coordinators (on behalf of the underwriters of the Global Offering), the Trustee-Manager and HKEIL;

(c) the international underwriting agreement in relation to the International Offering having been executed and delivered on or about the date on which the Offer Price will be determined;

(d) the obligations of the respective underwriters under the underwriting agreements in relation to the Hong Kong Public Offering and the International Offering not having been terminated immediately prior to 8:00 a.m. on the Listing Date; and

(e) there being no material breach of the representations, warranties and/or undertakings set out in the Sale and Purchase Agreement or any other terms of the Sale and Purchase Agreement on the part of the Company.

Subject to the satisfaction of the conditions referred to above, Completion will take place immediately prior to 8:00 a.m. on the Listing Date.

Consideration for the Disposal

The Disposal Consideration, which will reflect the value of HEC implied by the Offer Price, will be payable on the Completion Date and will be an amount equal to:

A — B

where:

(1) "**A**" is the sum of:

(i) the net proceeds from the issue of the Offer Share Stapled Units pursuant to the Global Offering (being the gross proceeds less underwriting commissions and any incentive fees payable to the underwriters of the Global Offering pursuant to the underwriting agreements to be entered into in connection with the Global Offering) (for the avoidance of doubt, excluding any exercise of the Over-allotment Option);

(ii) the value (at the Offer Price) of the Consideration Share Stapled Units to be issued to Quickview (at the direction of the Company); and

(iii) HK$8,700.0 million, being a sum equal to the gross amount to be drawn down by HKEIL under the HKEIL Loan Facility or, where United States dollars are drawn, its HK$ equivalent at an exchange rate agreed by the parties to the Sale and Purchase Agreement, and

(2) "**B**" is the sum of:

(i) HK$78.3 million, being an amount equal to the front end fee to be paid by HKEIL in respect of the HKEIL Loan Facility or, where United States dollars are paid, its HK$ equivalent at an exchange rate agreed by the parties to the Sale and Purchase Agreement;

(ii) HK$109.1 million, being the amount agreed as the costs and expenses of the Global Offering (excluding underwriting commissions and any incentive fees payable to the underwriters of the Global Offering under the underwriting agreements to be entered into in connection with the Global Offering); and

(iii) HK$10.0 million, being an amount set aside and retained by HKEIL as working capital of HKEIL,

each of the amounts in (ii) and (iii) of "B" being an agreed amount for the purposes of the calculation of the Disposal Consideration.

Based on the Minimum Trust Group Market Capitalisation of HK$48 billion, the Disposal Consideration is expected to be of a minimum amount of approximately HK$55.7 billion. However, the final amount of the Disposal Consideration can only be determined following the determination of the Offer Price. When the final amount of the Disposal Consideration has been ascertained, the Company will publish an announcement.

Settlement of the Disposal Consideration

The Disposal Consideration will be settled on the Completion Date as follows:

(a) the Consideration Share Stapled Units will be issued at the Offer Price (credited as fully paid) to Quickview, at the direction of the Company; and

(b) the Disposal Consideration less the value (at the Offer Price) of the Consideration Share Stapled Units, will first be paid to the Company using the net proceeds from the Global Offering, and as to the balance, will be settled by way of the issue of a promissory note (the "**Promissory Note**") by Treasure Business to the Company of a principal amount equal to such balance.

The Promissory Note can, at the option of Treasure Business, be redeemed by payment of cash in Hong Kong dollars and/or United States dollars (using an agreed exchanged rate). The Promissory Note is expected to be redeemed on or before the fifth business day following the Listing Date (the "**Payment Date**") using part of the proceeds from the HKEIL Loan Facility. The Promissory Note will not bear any interest before the Payment Date, but will bear interest from the Payment Date onwards at the rate charged to HKEIL for the HKEIL Loan Facility.

As the Company will be a controlling holder of the Share Stapled Units upon the Listing, pursuant to Rule 10.07 of the Listing Rules, the Company will undertake to the Stock Exchange, the Trustee-Manager, HKEIL and the underwriters of the Hong Kong Public Offering not to dispose of, except pursuant to any lending of Share Stapled Units pursuant to the Share Stapled Units borrowing agreement to be entered between Quickview and the appointed stabilising manager under the Global Offering or pursuant to any exercise of the Over-allotment Option, (1) any Share Stapled Units for a period of six months from the Listing Date (the "**First Six-Month Period**") and (2) any Share Stapled Units during a period of six months following the expiry of the First Six-Month Period which would result in it ceasing to be a controlling holder of the Share Stapled Units.

Stamp Duty

Stamp duty payable on the transfer of HEC to Treasure Business will be paid by the Company.

Profit Attributable to the Equity Shareholders of HEC

All profit attributable to the equity shareholders of HEC up to Completion shall belong to the Company, and all such profit as from Completion shall belong to Treasure Business. Such profit up to Completion will be paid or accounted for by the HKEIL Group to the Company in the following manner:

(i) Interim dividends of HK$4,865 million were declared by HEC prior to the Latest Practicable Date in respect of such profit from 1 January 2013 to 30 November 2013. Dividends so declared, to the extent that they are not paid to the Company before Completion, will form part of the Inter-company Loans as at the Listing Date and are expected to be settled by HEC on or before the fifth business day following the Listing Date.

(ii) After the consolidated financial statements of the Disposal Group for the financial year ending 31 December 2013 and for the period from 1 January 2014 up to the Completion Date have been prepared and audited to determine the profit for such periods, Treasure Business will procure that a further interim dividend in respect of the remaining part of such profit up to the Completion Date is declared by HEC to Treasure Business and Treasure Business will then pay to the Company the same amount by no later than 30 April 2014.

The amount of the further interim dividend to be declared by HEC referred to in (ii) above will be determined solely based on the audited profit attributable to the equity shareholders of HEC for the period up to the Completion Date and should not be considered in the context of the 2014 Profit Projection, which represents the projected profit of the Trust Group for the period from the Listing Date to 31 December 2014 and takes into account increases in interest charges and depreciation and amortisation charges and is therefore not capable of being extrapolated for comparison (see the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in this letter below for information regarding the 2014 Profit Projection). Furthermore, HEC's electricity-related business and the number of units of electricity HEC is able to sell are affected by the supply of and demand for its electricity, which are subject to weather conditions and seasonality.

Minimum Trust Group Market Capitalisation

For the purpose of the shareholders' approval requirement under Chapter 14 of the Listing Rules and PN15, Shareholders will be requested at the EGM to approve the Proposed Spin-off, which would proceed only if the Minimum Trust Group Market Capitalisation of HK$48 billion is achieved.

FURTHER INFORMATION ON HEC

HEC, which commenced commercial operations in 1890, is one of the world's longest established utility companies. It is a vertically integrated power utility whose operations comprise the generation, transmission, distribution and supply of electricity to Hong Kong Island and Lamma Island with an electricity supply reliability rating of above 99.999% in each year since 1997. HEC's sole power generating facility is the Lamma Power Station which, as at 30 September 2013, had an aggregate installed capacity of approximately 3,737 MW. As at 30 September 2013, HEC provided electricity to approximately 568,000 registered customers on Hong Kong Island and Lamma Island.

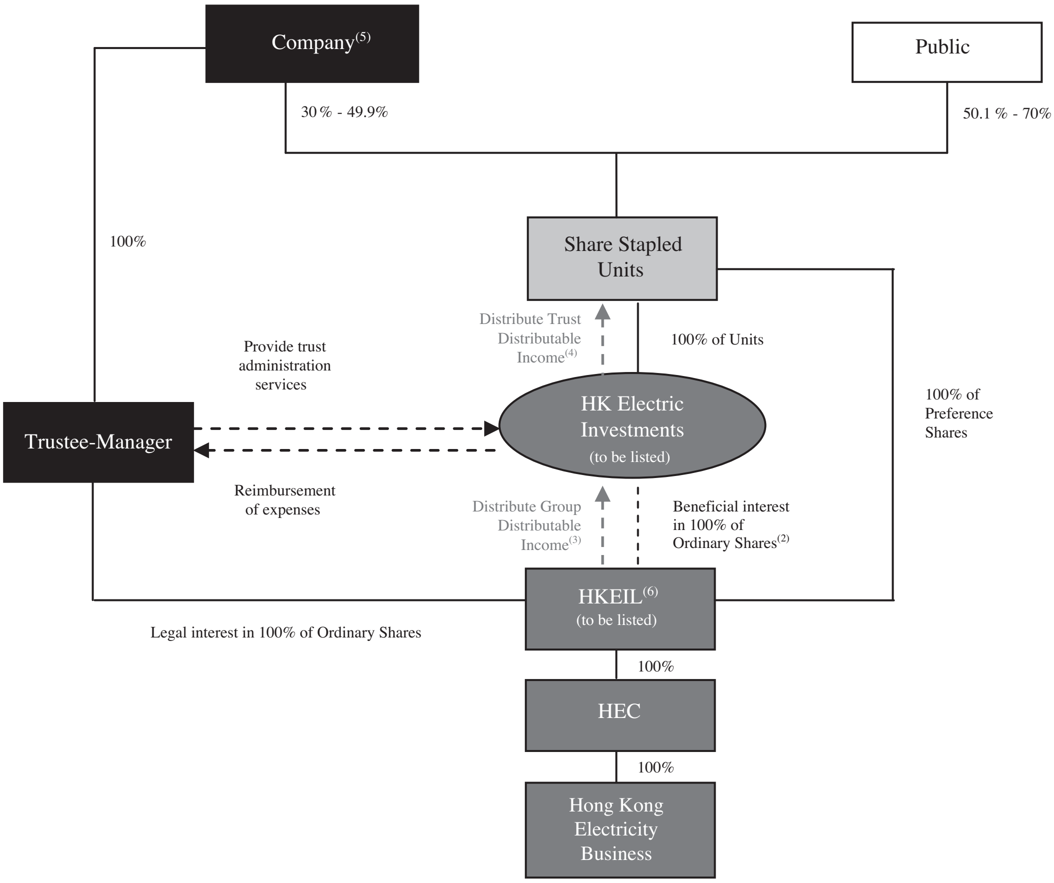
HEC's operations are subject to a Scheme of Control entered into with the Hong Kong Government. Under the terms of the Scheme of Control, HEC is entitled to full recovery of its total operating costs from its Gross Tariff Revenue, and a permitted level of earnings based principally on a return on HEC's capital investment in electricity generation, transmission and distribution assets. The current Scheme of Control was entered into on 7 January 2008 for a term of ten years from 1 January 2009 to 31 December 2018, with an option for the Hong Kong Government to extend it for a further term of five years ending on 31 December 2023.

Please refer to Appendix II for the financial information of the Disposal Group.

PROPOSED LISTING STRUCTURE OF THE TRUST GROUP AND THE ISSUE OF SHARE STAPLED UNITS

Simplified Structure Chart of the Trust Group

The chart below illustrates a simplified structure chart of the Trust Group immediately following the completion of the Reorganisation and the Global Offering (1):



Notes:

(1) With the exception of the beneficial interest in 100% of the Ordinary Shares of HKEIL held by the holders of Share Stapled Units, all dotted lines indicate a proposed contractual relationship between the entities or distribution or funds flow and continuous lines indicate a proposed interest in shares (or, in the case of HK Electric Investments, an interest in the Units) or ownership in the Hong Kong Electricity Business.

(2) As HK Electric Investments is not a separate legal entity, all of the trust property, being the assets of HK Electric Investments, will be held by the Trustee-Manager for the benefit of the Registered Holders of Units. Subject to the exercise of the Exchange Right, all of the issued Ordinary Shares of HKEIL must be registered in the principal register of members of HKEIL in the name of the Trustee-Manager (in its capacity as trustee-manager of HK Electric Investments).

(3) The current intention of the directors of HKEIL is to declare a dividend of and distribute 100% of the Group Distributable Income for (a) the period from the Listing Date to 31 December 2014 and (b) each financial year thereafter. Please see the section headed "*Distributions*" in this letter below for further details.

(4) Under the Trust Deed, the Trustee-Manager (on behalf of HK Electric Investments) is required to declare a dividend of and distribute 100% of the Trust Distributable Income. Please see the section headed "*Distributions*" in this letter below for further details.

(5) The Company's interest in the Share Stapled Units will be held through Quickview, its wholly-owned subsidiary. The Company's interest in the Trustee-Manager is held through Sure Grade Limited, its wholly-owned subsidiary.

(6) HKEIL's interest in HEC will be held through Century Rank and Treasure Business, its wholly-owned subsidiaries.

HKEIL

HKEIL is currently an indirect wholly-owned subsidiary of the Company. Pursuant to the Proposed Spin-off, HKEIL will become the holding company of the HKEIL Group, which has been established to own HEC.

HK Electric Investments

HK Electric Investments will be a fixed single investment trust constituted by the Trust Deed to be entered into between the Trustee-Manager and HKEIL if the Proposed Spin-off proceeds. As a fixed single investment trust, HK Electric Investments will only invest in securities and other interests in HKEIL and will confer on Registered Holders of Units in HK Electric Investments a beneficial interest in specifically identifiable property (being the Ordinary Shares) held by HK Electric Investments.

It is proposed that the objectives of HK Electric Investments and HKEIL will be (a) to focus principally on the payment of distributions to the holders of Share Stapled Units with a clearly expressed intention as to their respective distribution policies stated in the Trust Deed and the HKEIL's Articles and (b) to provide the holders of Share Stapled Units with stable distributions with the potential for sustainable long-term growth of such distributions.

Trustee-Manager

The Trustee-Manager is an indirect wholly-owned subsidiary of the Company. Under the proposed terms of the Trust Deed, the Trustee-Manager will be appointed as the trustee and manager of HK Electric Investments and will have legal ownership of the assets of HK Electric Investments and will declare in the Trust Deed that it holds those assets on trust for the Registered Holders of Units of HK Electric Investments.

The Trustee-Manager will have a specific and limited role, which is to administer HK Electric Investments, and it will not be actively engaged in the management of the underlying operations of the Hong Kong Electricity Business, which will be owned by the HKEIL Group. Under the proposed terms of the Trust Deed, the Trustee-Manager may be removed and replaced by a resolution proposed and passed at a meeting of the registered holders of the Share Stapled Units by a simple majority of over 50% of the total number of votes cast for such resolution.

The costs and expenses of administering HK Electric Investments may be deducted from the trust property of HK Electric Investments but, commensurate with its specific and limited role, the Trustee-Manager will not receive any fee for administering HK Electric Investments.

Share Stapled Units

Subscribers under the Global Offering will subscribe for Share Stapled Units to be jointly issued by HK Electric Investments and HKEIL. Each Share Stapled Unit will comprise three components:

(a) a Unit;

(b) a beneficial interest in a specifically identified Ordinary Share held by the Trustee-Manager, which is "Linked" to the Unit; and

(c) a specifically identified Preference Share which is "Stapled" to the Unit.

Meaning of "Linked"

All of the Ordinary Shares to be issued by HKEIL must be held by the Trustee-Manager in its capacity as trustee-manager of HK Electric Investments. Each Unit in HK Electric Investments to be issued by the Trustee-Manager must correspond with a specifically identified Ordinary Share held by the Trustee-Manager and confer a beneficial interest in that specifically identified Ordinary Share such that a transfer of a Unit is effective to transfer the beneficial interest in the Ordinary Share. The Trust Deed will characterise this relationship as each unit being "Linked" to a specifically identified Ordinary Share of HKEIL held by the Trustee-Manager.

Meaning of "Stapled"

Each Unit in HK Electric Investments to be issued by the Trustee-Manager must be attached or "Stapled" to a specifically identified Preference Share, with the Preference Share to be held by the holder of a Unit (along with the Unit) as full legal and beneficial owner, so that one cannot be traded without the other. The Trust Deed will characterise this relationship as each Unit being "Stapled" to a specifically identified Preference Share.

Numbers of Units, Ordinary Shares and Preference Shares must be the same

Under the Trust Deed and HKEIL's Articles, the number of Ordinary Shares and Preference Shares in issue must be the same at all times and must also, in each case, be equal to the number of Units of HK Electric Investments in issue.

Votings at Meetings

For so long as the Trust Deed remains in force, in relation to a meeting of registered holders of Share Stapled Units, to the extent practicable a single resolution will be proposed to approve the matter to be considered by the Registered Holders of Units and the members of HKEIL, which resolution will be characterised as a resolution of the Registered Holders of Units and a resolution of members of HKEIL.

A registered holder of a Share Stapled Unit shall cast a single vote in respect of that Share Stapled Unit, which shall serve as a vote in respect of both the Unit and the Preference Share Stapled to the Unit.

Each Ordinary Share will carry one vote and the Trustee-Manager may only exercise the voting rights conferred by the Ordinary Shares held by it in accordance with the directions of the Registered Holders of the Units which are Linked to those Ordinary Shares.

HK Electric Investments and HKEIL will both be listed on the Stock Exchange

It is proposed that following the completion of the Proposed Spin-off, HK Electric Investments and HKEIL will both be listed on the Stock Exchange and be "listed issuers" under the Listing Rules and, therefore, HK Electric Investments (including the Trustee-Manager) and HKEIL will be subject to the provisions of the Listing Rules.

In addition, the Share Stapled Units, HK Electric Investments, the Trustee-Manager and HKEIL will be subject to the provisions of the SFO and the Hong Kong Code on Takeovers and Mergers. Repurchases of Share Stapled Units (or their individual components) will not be permitted unless and until expressly permitted by relevant codes and guidelines which may be issued by the SFC from time to time.

Listing of Share Stapled Units, Units, Ordinary Shares and Preference Shares

Following completion of the Proposed Spin-off, the Share Stapled Units will be listed on the Stock Exchange; and in addition, the Units, the Ordinary Shares and the Preference Shares will also be listed on the Stock Exchange. However, for so long as the Share Stapled Units are listed on the Stock Exchange, trading on the Stock Exchange will only take place in the form of Share Stapled Units and there will only be a single price quotation on the Stock Exchange for a Share Stapled Unit. No price quotations will be given for the individual components (Unit, beneficial interest in an Ordinary Share and Preference Share) of a Share Stapled Unit.

Under the proposed terms of Trust Deed, each Unit must remain Linked to a specifically identified Ordinary Share in HKEIL and Stapled to a Preference Share in HKEIL and, subject to the exercise of the Exchange Right described below, "unbundling" of the Share Stapled Units is prohibited. Accordingly, subject to the exercise of the Exchange Right, investors may only deal in the Share Stapled Units on the Stock Exchange and are not permitted to deal in the individual components of the Share Stapled Units. Following the exercise of the Exchange Right and subject to the Stock Exchange's prior approval, the Ordinary Shares will be separately traded on the Stock Exchange (and will have their own price quotation) and the Units and the Preference Shares would have been cancelled.

DISTRIBUTIONS

Trust Distributable Income

It is proposed that the Trustee-Manager (on behalf of HK Electric Investments) will distribute 100% of the dividends, distributions and other amounts received by the Trustee-Manager in respect of the Ordinary Shares from HKEIL, after deduction of all amounts permitted to be deducted or paid under the Trust Deed (such as operating expenses of HK Electric Investments) (the "**Trust Distributable Income**").

Group Distributable Income

The distributions received by the Trustee-Manager from HKEIL will be derived from the Group Distributable Income.

It is proposed that "**Group Distributable Income**" will refer to the audited consolidated profit attributable to the holders of Share Stapled Units for the relevant financial year or the relevant distribution period after:

(a) eliminating the effects of the Adjustments (as defined below);

(b) (i) adding/(deducting) any net decrease/(increase) in the Fuel Clause Recovery Account asset, (ii) deducting any rebates made from the Rate Reduction Reserve, (iii) adding/(deducting) any net decrease/(increase) in other working capital items, (iv) deducting the actual amount of taxes paid and (v) deducting the actual amount of funding applied in respect of employee retirement benefit schemes;

(c) deducting the actual amount of capital expenditure incurred;

(d) deducting (i) the actual amount used to repay the principal amount of any debt and (ii) the actual amount used to pay any interest and financing fees (net of the actual amount of interest received); and

(e) at the discretion of the directors of HKEIL, deducting any amounts set aside (i) in respect of future capital expenditure or (ii) for the purpose of future debt service and/or compliance with covenants in any credit facility agreement.

"**Adjustments**" refer to certain items which are charged or credited to the consolidated statement of profit or loss of the HKEIL Group for the relevant financial year or the relevant distribution period (as the case may be), such items including, but not limited to:

(a) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control;

(b) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions;

(c) impairment of goodwill/recognition of negative goodwill;

(d) material non-cash gains/losses;

(e) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units;

(f) depreciation and amortisation;

(g) tax charges as shown in the consolidated statement of profit or loss; and

(h) net finance income/costs as shown in the consolidated statement of profit or loss.

It is currently intended that HKEIL will declare and distribute 100% of the Group Distributable Income for (a) the period from the Listing Date to 31 December 2014 and (b) each financial year thereafter. In addition, subject to compliance with all applicable laws of the Cayman Islands and the amended and restated articles of association of HKEIL, the directors of HKEIL may declare and distribute such additional amounts as the directors of HKEIL in their discretion determine.

If the HKEIL Group sells any fixed assets or properties, the directors of HKEIL may, at their discretion, retain all or any part of the proceeds (including any realised gains) from such sale (less associated taxes and expenses and associated debt repayments), including any amounts retained for the purpose of servicing future debt repayments and/or for the purpose of complying with covenants in any credit facility agreement (such amounts retained for debt repayment and covenant compliance being "**Excluded Amounts**"), for up to five years following such sale and may utilise the retained proceeds (other than the Excluded Amounts) for the acquisition of other fixed assets or properties and/or capital expenditure. To the extent that all or any part of the retained proceeds (other than the Excluded Amounts) are not utilised for the purposes described above within five years following such sale, HKEIL will distribute such retained proceeds (other than the Excluded Amounts) to the Trustee-Manager.

As it is intended that the interest-free Inter-company Loans as at the Listing Date will be replaced by interest-bearing external bank loans after the Listing, it is anticipated that the interest expenses of the Trust Group will significantly increase relative to previous years. In particular, the interest rates with respect to the interest bearing HEC Loan Facility and the HKEIL Loan Facility will be equal to (i) the sum of Hong Kong Interbank Offered Rate plus an interest margin (0.80% per annum) for amounts drawn in Hong Kong dollars, and (ii) the sum of London Interbank Offered Rate plus an interest margin (0.80% per annum) for amounts drawn in United States dollars. In addition, it is expected that upon the completion of the acquisition of HEC pursuant to the Sale and Purchase Agreement, the identifiable assets and liabilities of the Disposal Group will be accounted for in the consolidated financial statements of the Trust Group at fair value using the purchase method of accounting in accordance with HKFRS, such that the fair value of these identifiable assets and liabilities will be significantly greater than the historical amounts at which such assets and liabilities were previously stated. In addition, goodwill will be created and the amount of the HKEIL Group's depreciation and amortisation charges will also significantly increase. Such increases in interest charges and depreciation and amortisation charges have been taken into account in the preparation of the 2014 Profit Projection and will, in future years, continue to impact the profits and profit margins of the Trust Group. On a year-on-year comparison, such increases in interest charges and depreciation and amortisation charges account for the great majority of the reduction in the amount of the 2014 Profit Projection (on an annualised basis) relative to the amounts of the profit attributable to the equity shareholders of HEC for the financial years ended 31 December 2010, 2011 and 2012 and the 2013 Profit Forecast. However, depreciation and amortisation charges and impairment of goodwill do not result in any cash outflows and form part of the Adjustments, the effects of which will be eliminated in calculating the Group Distributable Income and in calculating the amounts of the distributions to registered holders of Share Stapled Units commencing from the Listing Date.

The above distribution policy is a statement of the current intention of the directors of HKEIL only. Such distribution policy is not a legally binding obligation of the directors of HKEIL, HKEIL, the Trustee-Manager or HK Electric Investments and will be subject to change.

Statement of Distributions

It is proposed that the holders of Share Stapled Units will not receive distributions for any period before the Listing Date and the first distribution to be paid to the holders of Share Stapled Units will be for the period from the Listing Date to 30 June 2014 as an interim distribution.

Expected Distributions for the period from the Listing Date to 31 December 2014

The directors of HKEIL and of the Trustee-Manager expect that, based on the assumptions relating to the 2014 Profit Projection as set out in the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in this letter below and in the absence of unforeseen circumstances, the total distributions to be declared and paid to the holders of Share Stapled Units for the period from the Listing Date to 31 December 2014 will not be less than HK$3,217.7 million. Such distributions are calculated based on (a) the expected Group Distributable Income for the period from the Listing Date to 31 December 2014, which is calculated from the 2014 Profit Projection and (b) the assumption that the anticipated Listing Date will be 29 January 2014, and such distributions will vary if the actual Listing Date is different. The annualised distributions to the holders of Share Stapled Units for the year ending 2014, which are calculated by annualising the above expected distributions for the period from the Listing Date to 31 December 2014, will be HK$3,485.0 million.

Considering the prevailing market conditions, the Board currently expects that, if the Proposed Spin-off proceeds, the Trust Group Market Capitalisation will be in the range of HK$48 billion to approximately HK$63.4 billion and that, based on the above expected distributions to holders of Share Stapled Units for the period from the Listing Date to 31 December 2014 and assuming that the anticipated Listing Date will be 29 January 2014, the annualised distribution yield for investors acquiring the Share Stapled Units at the Global Offering will be in the range of approximately 5.5% to 7.26%. For the avoidance of doubt, even if the Minimum Trust Group Market Capitalisation is achieved and whether or not the annualised distribution yield of the Share Stapled Units is within the above range, the decision whether to proceed with the Proposed Spin-off will be at the discretion of the Directors, and, when doing so, the Directors will take into account whether in their view the expected benefits to the Company and the Shareholders will be maximised.

STRUCTURE OF THE GLOBAL OFFERING

Global Offering

The Global Offering is expected to comprise the Hong Kong Public Offering and the International Offering (which includes the Preferential Offering).

The Global Offering is expected to be conditional on, among other things:

(a) the Listing Committee granting approval for the listing of, and permission to deal in, the Share Stapled Units in issue and to be issued pursuant to the Reorganisation and the Global Offering on the Main Board of the Stock Exchange and such approval not having been withdrawn;

(b) the Offer Price having been agreed among the Joint Global Coordinators (on behalf of the underwriters of the Global Offering), the Trustee-Manager and HKEIL;

(c) the execution and delivery of the international underwriting agreement in relation to the International Offering on or about the date on which the Offer Price is determined; and

(d) the obligations of the underwriters under the underwriting agreements to be entered into in relation to the Global Offering becoming unconditional and not having been terminated in accordance with the terms of the respective agreements.

Underwriting Agreements and Share Stapled Units Borrowing Agreement

It is expected that, in connection with the Proposed Spin-off, the Company will enter into underwriting agreements relating to the Global Offering with, among others, Quickview, HKEIL, the Trustee-Manager and the underwriters in respect of the Global Offering. In addition, Quickview will enter into the Share Stapled Units borrowing agreement with the appointed stabilising manager under the Global Offering in relation to the lending of Share Stapled Units by Quickview to the stabilising manager to facilitate the settlement of over-allocations in connection with the Global Offering.

Over-allotment Option

In connection with the Global Offering, Quickview is expected to grant to the underwriters of the International Offering, exercisable by the Joint Global Coordinators (on behalf of such underwriters), the Over-allotment Option, which will be exercisable in whole or in part at one or more times from the Listing Date until 30 days after the last day for lodging of applications under the Hong Kong Public Offering and the Preferential Offering, to require Quickview to sell additional Share Stapled Units, representing not more than an approximately 15% of the number of Offer Share Stapled Units, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any.

PROPOSED PREFERENTIAL OFFERING

Shareholders are reminded that this circular is not intended to and does not constitute an offer or an invitation to apply for the Reserved Share Stapled Units under the Preferential Offering. The Proposed Spin-off and the Global Offering are dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied, including the approval of the Stock Exchange and the final decision of the Board and of the boards of directors of the Trustee-Manager and HKEIL, market conditions and other considerations. There is no certainty as to whether, and if so when, the Proposed Spin-off and the Global Offering will take place. If the Proposed Spin-off is approved and the Global Offering proceeds, such offer or invitation is to be made to the Qualifying Shareholders through the Prospectus and the information below in relation to the Preferential Offering is for general information purposes only and may be subject to change. Qualifying Shareholders should refer to the Prospectus to be issued for details of the offer and the invitation to them under the Preferential Offering.

Basis of the Assured Entitlement

In order to enable the Shareholders to participate in the Global Offering on a preferential basis as to allocation only, if the Proposed Spin-off is approved and the Global Offering proceeds, and subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Share Stapled Units on the Main Board of the Stock Exchange and such approval not having been withdrawn and the Global Offering becoming unconditional, Qualifying Shareholders will be invited to apply for the Reserved Share Stapled Units in the Preferential Offering. **It is expected that not less than 10% of the Share Stapled Units to be initially available under the Global Offering (prior to any exercise of the Over-allotment Option in connection with the International Offering) will be offered to the Qualifying Shareholders, as an Assured Entitlement.** Details of the number of Reserved Share Stapled Units to be made available for subscription by the Qualifying Shareholders in the Preferential Offering will be set out in the Prospectus and further announcement of the Company, if the Global Offering proceeds.

Qualifying Shareholders should note that their Assured Entitlement to Reserved Share Stapled Units may not represent a number which is a full board lot of Share Stapled Units. No odd-lot matching services will be provided. Further, the Reserved Share Stapled Units allocated to the Qualifying Shareholders will be rounded down to the closest whole number if required, and dealings in odd lots of the Share Stapled Units may be at a price below the prevailing market price for full board lots.

The Assured Entitlements of Qualifying Shareholders to Reserved Share Stapled Units will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange.

Qualifying Shareholders and Non-Qualifying Shareholders

Only Qualifying Shareholders will be entitled to subscribe for the Reserved Share Stapled Units under the Preferential Offering.

Non-Qualifying Shareholders are those Shareholders with registered addresses in, or who are otherwise known by the Company to be residents of, jurisdictions outside Hong Kong on the Record Date and in respect of whom the Directors, the Trustee-Manager and HKEIL, based on enquiries made by them, consider it necessary or expedient to exclude them from the Preferential Offering on account either of the legal restrictions under the laws of the relevant jurisdiction in which the relevant Shareholder is located or the requirements of the relevant regulatory body or stock exchange in that jurisdiction.

According to the register of members of the Company as at the Latest Practicable Date, the Company had 382 Shareholders with addresses in the Existing Non-HK Territories. The Directors, the Trustee-Manager and HKEIL have made enquiries regarding the legal restrictions under the applicable securities legislation of the Existing Non-HK Territories and the requirements of the relevant regulatory bodies or stock exchanges with respect to the offer of the Reserved Share Stapled Units to the Shareholders in the Existing Non-HK Territories. Having considered the circumstances, the Directors, the Trustee-Manager and HKEIL have formed the view that it is necessary or expedient to restrict the ability of Shareholders in Australia, Germany, Indonesia, Ireland, Malaysia, Malta, the Netherlands, New Zealand, Pakistan, Panama, Portugal, Singapore, Thailand, the United Kingdom and the United States to take up their Assured Entitlement to the Reserved Share Stapled Units under the Preferential Offering due to the time and costs involved in the registration or filing of the Prospectus and/or approval required by the relevant authorities in those territories and/or additional steps which the Trustee-Manager, HKEIL and the Shareholders would need to take to comply with the local legal and/or other requirements which would need to be satisfied in order to comply with the relevant local or regulatory requirements in those territories.

If there is any other territory outside Hong Kong in which the address of any Shareholder as shown in the register of members of the Company on the Record Date is located or any Shareholder or Beneficial Shareholder on the Record Date is otherwise known by the Company to be resident, and such Shareholders should, in the view of the Directors, the Trustee-Manager and HKEIL having made the relevant enquiries mentioned above and having considered the circumstances, be excluded from the Preferential Offering on the basis permitted under Rule 13.36(2) of the Listing Rules, the Company will make an announcement to disclose which such other territories will be regarded as "Specified Territories" accordingly.

Accordingly, it is proposed that for the purposes of the Preferential Offering, the Non-Qualifying Shareholders will be:

(a) Shareholders whose names appear in the register of members of the Company on the Record Date and whose addresses as shown in such register are in any of the Specified Territories; and

(b) Shareholders or Beneficial Shareholders on the Record Date who are otherwise known by the Company to be resident in any of the Specified Territories.

Distribution of the Prospectus and the BLUE Application Forms

BLUE Application Forms will be despatched to all Qualifying Shareholders.

If a Qualifying Shareholder has elected to receive corporate communications from the Company in printed form under the Company's corporate communications policy or has not been asked to elect the means of receiving the Company's corporate communications, a printed copy of the Prospectus in the elected language version(s) (if applicable) and a BLUE Application Form will be despatched to such Qualifying Shareholder.

If a Qualifying Shareholder (a) has elected to receive an electronic version of corporate communications from the Company or (b) is deemed to have consented to receiving the electronic form of corporation communications from the Company, a BLUE Application Form will be despatched to such Qualifying Shareholder without being accompanied by a printed copy of the Prospectus. An electronic version of the Prospectus (which will be identical to the printed Prospectus) will be able to be accessed and downloaded from the websites of HKEIL (at www.hkei.hk) and the Stock Exchange (at www.hkexnews.hk under the section headed "*HKExnews > Listed Company Information > Latest Listed Company Information*") after the offering period starts. The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 2.07A(2) of the Listing Rules so that the Prospectus may be made available in electronic format on the websites of HKEIL and the Stock Exchange instead of the Company sending printed copies of the Prospectus to such Qualifying Shareholders.

Qualifying Shareholders may obtain a printed copy of the Prospectus from designated places during the offering period and may send a request in writing to the share registrar of the Company for a printed copy of the Prospectus. Further details will be set out in the Prospectus and further announcement(s) to be made by the Company.

Application for Reserved Share Stapled Units

If the Proposed Offering proceeds, it is proposed that Qualifying Shareholders may apply for a number of Reserved Share Stapled Units which is greater than, less than or equal to their Assured Entitlement or may apply only for excess Reserved Share Stapled Units under the Preferential Offering. A valid application for a number of Reserved Share Stapled Units which is less than or equal to a Qualifying Shareholder's Assured Entitlement under the Preferential Offering will be accepted in full, subject to the terms and conditions set out in the BLUE Application Forms to be despatched to each Qualifying Shareholder or as otherwise specified on the designated website for the Blue Form eIPO at www.eipo.com.hk and assuming the conditions of the Preferential Offering are satisfied.

Where a Qualifying Shareholder applies for a number of Reserved Share Stapled Units which is greater than the Qualifying Shareholder's Assured Entitlement under the Preferential Offering, the relevant Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be satisfied to the extent that there are sufficient Available Reserved Share Stapled Units as described below.

Where a Qualifying Shareholder applies for excess Reserved Share Stapled Units only under the Preferential Offering, such application will only be satisfied to the extent that there are sufficient Available Reserved Share Stapled Units as described below.

To the extent that excess applications for the Reserved Share Stapled Units are:

(a) less than the Assured Entitlement not taken up by the Qualifying Shareholders (the "**Available Reserved Share Stapled Units**"), the Available Reserved Share Stapled Units will first be allocated to satisfy such excess applications for the Reserved Share Stapled Units in full and thereafter will be allocated, at the discretion of the Joint Global Coordinators, to the International Offering;

(b) equal to the Available Reserved Share Stapled Units, the Available Reserved Share Stapled Units will be allocated to satisfy such excess applications for the Reserved Share Stapled Units in full; or

(c) more than the Available Reserved Share Stapled Units, the Available Reserved Share Stapled Units will be allocated on an allocation basis which will be consistent with the allocation basis commonly used in the case of over-subscription in public offerings in Hong Kong, where a higher allocation percentage will be applied in respect of smaller applications. If there are any Share Stapled Units left after satisfying the excess applications, such Share Stapled Units will be re-allocated, at the discretion of the Joint Global Coordinators, to the International Offering. No preference will be given to any excess applications made to top up odd-lot holdings to whole-lot holdings of Share Stapled Units. Details of the applications for Reserved Share Stapled Units will be set out in the Prospectus.

Save for the above, the Preferential Offering will not be subject to the clawback arrangement between the International Offering and the Hong Kong Public Offering.

Beneficial Shareholders whose Shares are held by a nominee company should note that the Trustee-Manager and HKEIL will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Beneficial Shareholders whose Shares are held by a nominee company should note that the arrangement under paragraph (c) above will not apply to them individually. Any Beneficial Shareholders whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to applications for Reserved Share Stapled Units under the Preferential Offering. Any such person is advised to consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the Record Date.

Applications by Qualifying Shareholders for Hong Kong Offer Share Stapled Units

If the Global Offering proceeds, it is proposed that, in addition to any application for Reserved Share Stapled Units made either through the Blue Form eIPO service via www.eipo.com.hk or on a BLUE Application Form, Qualifying Shareholders will be entitled to make one application for Hong Kong Offer Share Stapled Units.

2013 PROFIT FORECAST AND 2014 PROFIT PROJECTION

2013 Profit Forecast

On the bases and assumptions set out below and in the absence of unforeseen circumstances, the 2013 Profit Forecast is as follows:

Forecast consolidated profit attributable to the equity shareholders of HEC for the financial year ending 31 December 2013 . . . . Not less than HK$5,180.0 million

2014 Profit Projection

On the bases and assumptions set out below and in the absence of unforeseen circumstances, the 2014 Profit Projection is as follows:

Projected consolidated profit attributable to the holders of Share Stapled Units for period from the Listing Date to 31 December 2014 . . . . Not less than HK$2,765.8 million

Bases and Assumptions for determining the 2013 Profit Forecast and the 2014 Profit Projection

HK Electric Investments is expected to be established in January 2014 if the Proposed Spin-off is approved at the EGM. HKEIL was incorporated on 23 September 2013. Neither HK Electric Investments nor HKEIL carried on or expects to carry on any business, nor will they have incurred any costs or expenses except for certain insignificant costs relating to the Listing, from the dates of their respective establishment/incorporation until the Completion Date, which is the same as the

Listing Date. Accordingly, the 2013 Profit Forecast has been prepared based on the audited consolidated results of the Disposal Group for the nine months ended 30 September 2013, the unaudited consolidated results of the Disposal Group based on the management accounts for the two months ended 30 November 2013 and a forecast of the consolidated results of the Disposal Group for the remaining one month ending 31 December 2013. The 2013 Profit Forecast has been prepared on the basis of the accounting policies adopted by the Disposal Group set out in Appendix II to this circular.

The 2014 Profit Projection has been prepared based on the projection of the consolidated results of the Trust Group for the period from the Listing Date to 31 December 2014. The 2014 Profit Projection assumes that the anticipated Listing Date will be 29 January 2014 and will vary if the actual Listing Date is different.

The directors of HKEIL and of the Trustee-Manager have also made the following assumptions in preparing the 2013 Profit Forecast and the 2014 Profit Projection:

- the Disposal Group's and the Trust Group's operations, results and financial condition will not be materially and adversely affected by any of the risks to be set out in the section headed "*Risk Factors*" in the Prospectus;

- there will be no material change in the existing government policies, political, legal, fiscal, market or economic conditions in Hong Kong or any other country or territory which are otherwise material to the Disposal Group's and the Trust Group's business;

- there will be no change in the legislation, regulations or rules in Hong Kong, or any other country or territory which materially and adversely affects the Disposal Group's and the Trust Group's business;

- there will be no force majeure events, unforeseeable factors or unforeseeable reasons that are beyond the control of the Disposal Group and the Trust Group, including the occurrence of wars, military incidents, natural disasters, catastrophes (such as floods and typhoons), epidemics (including SARS or H1N1 or H5N1 influenza) or serious accidents;

- there will be no equity capital raising at any time up to 31 December 2013 and during the financial year ending 31 December 2014, other than the equity capital raising pursuant to the Global Offering;

- interest rates will not differ materially from those presently prevailing;

- the Disposal Group and the Trust Group will continue with the policy of using derivative financial instruments solely for managing interest rate and foreign currency risks and not for speculative purposes;

- there will be no material change in the bases or applicable rates of taxation or any disallowance of tax assets in Hong Kong or in any of the countries in which any member of the Disposal Group and the Trust Group is incorporated or operates;

- the Scheme of Control and all leases and licences of the Disposal Group and the Trust Group that are necessary and/or desirable in order for the Disposal Group and the Trust Group to operate, are legally valid, binding and enforceable and will be performed in accordance with their terms;

- there will be no interruptions in the supplies of fuel, labour disputes or commercial litigation;

- as regards the 2014 Profit Projection only, the accounting policies to be adopted by the Trust Group will be consistent in all material respects with the accounting policies adopted by the Disposal Group to be set out in "*Appendix I — Accountant's Report*" in the Prospectus which are expected to be the same as those set out in Appendix II to this circular;

- as regards the 2014 Profit Projection only, the acquisition of HEC by Treasure Business pursuant to the Sale and Purchase Agreement will be accounted for using the purchase method of accounting in the consolidated financial statements of the Trust Group;

- there will be no material adverse changes to the Disposal Group's and the Trust Group's business or assets at any time up to 31 December 2013 and during the period from the Listing Date to 31 December 2014; and

- there will be no material change in the physical condition of the Disposal Group's and the Trust Group's assets.

As it is intended that the interest-free Inter-company Loans as at the Listing Date will be replaced by interest-bearing external bank loans after the Listing, it is anticipated that the interest expenses of the Trust Group will significantly increase relative to previous years. In particular, the interest rates with respect to the interest bearing HEC Loan Facility and the HKEIL Loan Facility will be equal to (i) the sum of Hong Kong Interbank Offered Rate plus an interest margin (0.80% per annum) for amounts drawn in Hong Kong dollars, and (ii) the sum of London Interbank Offered Rate plus an interest margin (0.80% per annum) for amounts drawn in United States dollars. In addition, it is expected that upon the completion of the acquisition of HEC pursuant to the Sale and Purchase Agreement, the identifiable assets and liabilities of the Disposal Group will be accounted for in the consolidated financial statements of the Trust Group at fair value using the purchase method of accounting in accordance with HKFRS, such that the fair value of these identifiable assets and liabilities will be significantly greater than the historical amounts at which such assets and liabilities were previously stated. In addition, goodwill will be created and the amount of the HKEIL Group's depreciation and amortisation charges will also significantly increase. Such increases in interest charges and depreciation and amortisation charges have been taken into account in the preparation of the 2014 Profit Projection and will, in future years, continue to impact the profits and profit margins of the Trust Group. On a year-on-year comparison, such increases in interest charges and depreciation and amortisation charges account for the great majority of the reduction in the amount of the 2014 Profit Projection (on an annualised basis) relative to the amounts of the profit attributable to the equity shareholders of HEC for the financial years ended 31 December 2010, 2011 and 2012 and the 2013

Profit Forecast. However, depreciation and amortisation charges and impairment of goodwill do not result in any cash outflows and form part of the Adjustments, the effects of which will be eliminated in calculating the Group Distributable Income and in calculating the amounts of the distributions to registered holders of Share Stapled Units commencing from the Listing Date.

Sensitivity Analysis

The 2014 Profit Projection included in this section is based on a number of assumptions which are set out above and are subject to a number of risks to be set out in the section headed "*Risk Factors*" in the Prospectus. Shareholders and prospective investors should be aware that future events cannot be predicted with any certainty and deviations from the figures forecast and projected as stated in this circular are to be expected.

In order to assist Shareholders and prospective investors in assessing the impact of some but not all assumptions on the 2014 Profit Projection, the table below demonstrates the sensitivity of the consolidated profit attributable to the holders of Share Stapled Units to changes in the interest rate assumption. The sensitivity illustrations are based exclusively on movements in the projected consolidated profit resulting from movements in interest rates and are not profit forecasts for the purposes of the Listing Rules or any other purpose and, accordingly, have not been reported on by the Joint Sponsors, the reporting accountants of the Trust Group or the Financial Adviser.

Shareholders and prospective investors should be aware that the sensitivity analysis is not intended to be exhaustive and is limited in scope in that not all principal assumptions or other assumptions which are relevant to the figures projected as stated in this circular have been examined or reviewed in this sensitivity analysis.

Care should be taken in interpreting the sensitivity analysis since it treats the movement in interest rates in isolation whereas, in practice, the movement in interest rates could be inter-dependent on movements in other variables. The effects of these movements may offset or compound each other. Accordingly, the effect on the 2014 Profit Projection presented for the interest rate sensitivity is not intended to indicate the likely range of outcomes with respect to such sensitivity and the actual variation could exceed the ranges shown below. No attempt is made to identify the cause of any potential variation or to identify or quantify any consequential or related changes or variations in other items.

	Increase in floating rate component of the interest rates in respect of the HKEIL Group's indebtedness by		
	0.25%	**0.5%**	**0.75%**
Change in the consolidated profit attributable to the holders of Share Stapled Units (HK$ million)			
For the period from the Listing Date to 31 December 2014	(92.0)	(184.0)	(275.9)

Statements contained in this section that are not historical facts may be forward-looking statements. Such statements are based on the assumptions set out above. While the directors of the Trustee-Manager and of HKEIL consider such assumptions to be reasonable, whether actual results will meet their expectations will depend on a number of risks and uncertainties over which they have no control. Under no circumstances should the inclusion of such information in this circular be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Company, the Trustee-Manager, HKEIL or any of the Relevant Persons or that these results will be achieved or are likely to be achieved. Shareholders and prospective investors in the Company are cautioned not to place undue reliance on these forward-looking statements that speak only as at the date of this circular.

None of the Company, the Trustee-Manager, HKEIL or any of the Relevant Persons guarantees the performance of the Trust Group, the payment of any distributions or any particular return on the Share Stapled Units.

The 2013 Profit Forecast and the 2014 Profit Projection have been prepared on the bases, assumptions and estimates set out above and in accordance with HKFRS and are consistent in all material respects with those accounting policies adopted by the Disposal Group to be set out in "*Appendix I — Accountant's Report*" in the Prospectus which are expected to be the same as those set out in Appendix II to this circular. These individual bases, assumptions and estimates should not be viewed as individual forecasts but form part of the overall bases, assumptions and estimates used in arriving at the 2013 Profit Forecast and the 2014 Profit Projection and have not been reported on individually by the Financial Adviser or the reporting accountants of the Trust Group or of the Company.

The 2013 Profit Forecast and the 2014 Profit Projection should be read together with the letters set out in "*Appendix V — Letter from the Financial Adviser in relation to the 2013 Profit Forecast and the 2014 Profit Projection*" and "*Appendix VI — Letters from the Reporting Accountant in relation to the 2013 Profit Forecast and the 2014 Profit Projection*" to this circular.

FURTHER INFORMATION IN RELATION TO THE SHARE STAPLED UNITS STRUCTURE

Reasons for adopting the Share Stapled Units structure

Set out below are the principal reasons for the proposal to adopt the Share Stapled Units structure in the Proposed Spin-off:

(a) *HK Electric Investments and the Units*

HK Electric Investments and the proposal for HK Electric Investments to issue Units to investors reflect the commercial objective to adopt a trust structure, within which a distribution policy based on the Group Distributable Income can be more clearly articulated and pursued, and within which the HKEIL Group can more clearly signal its intention to focus principally on distributions and to differentiate itself from other listed issuers on that basis. Investors in a trust typically subscribe for units, which represent undivided interests in the trust property.

(b) *Beneficial Interests in the Specifically Identified Ordinary Shares*

The Ordinary Shares will confer rights to dividends and other distributions from HKEIL. The Ordinary Shares are the means by which HK Electric Investments own the equity in HKEIL in trust for the Registered Holders of Units. The Ordinary Shares will represent the entire economic interest derived from HKEIL, except in the case of the winding up of HKEIL or, if HK Electric Investments is terminated, a redemption of the Preference Shares on termination at their par value. The rationale for having each Ordinary Share specifically identified and Linked to a Unit is that the Linking provisions result in the SFO (including, but not limited to, provisions on protection of investors) being applicable to the Units as derivatives of the underlying listed Ordinary Shares. The Linking arrangement and the Exchange Right mean that, ultimately, investors in Units could, by passing an Extraordinary Resolution of Registered Holders of Units, terminate HK Electric Investments and exchange their Units for the underlying Ordinary Shares in a listed company (being HKEIL) on a one for one basis.

(c) *Preference Shares*

The Preference Shares will not confer any rights to participate in any dividends, distributions or other payments being made by HKEIL, except in the case of the winding up of HKEIL or, if HK Electric Investments is terminated, the redemption of the Preference Shares on termination at their par value. The rationale for including the Preference Shares as components of the Share Stapled Units and adopting the Stapling structure is to ensure that the Share Stapled Units (and, thereby, HK Electric Investments, including the Trustee-Manager, and the Company) are clearly subject to all the provisions of the SFO (including, but not limited to, the provisions on the protection of investors). The application of certain provisions of the SFO to the Units on an independent basis might otherwise be arguable.

(d) *Trustee-Manager's Specific and Limited Role*

With a view to seeking to ensure that investors in the Share Stapled Units have equivalent investor protections under the existing legal framework in Hong Kong to those available to shareholders in a company listed on the Stock Exchange, the Trustee-Manager will have a specific and limited role, which is to administer HK Electric Investments. The Trustee-Manager will not be actively involved in the management of the Hong Kong Electricity Business, which will be owned by the HKEIL Group upon Completion and managed by HEC.

Advantages and disadvantages of the proposal to adopt the structure involving the listing of HK Electric Investments and HKEIL and the issue of Share Stapled Units

The advantages of the proposal to adopt a listing structure involving the listing of HK Electric Investments and HKEIL and the issue of Share Stapled Units include the following:

(a) A listing of the Hong Kong Electricity Business in the form of the structure as described in this circular is expected to align its cash flow generating characteristic with the appropriate investor base that favours a clearly expressed distribution policy and pure-play investments. The Directors believe that a listing of the Hong Kong Electricity Business in this form with a clearly expressed distribution policy to be stated in the Trust Deed and in HKEIL's Articles and an explicit focus on distributions will give greater assurance to investors that they will receive distributions from the Group Distributable Income that represent a high pay out ratio of the Trust Distributable Income and which may be higher than the dividends that may be distributed from the consolidated accounting profit of the Trust Group.

(b) The Directors believe that HK Electric Investments will provide a structure within which a distribution policy based on the Group Distributable Income can be more clearly articulated and pursued, and within which the HKEIL Group can more clearly signal its intention to focus principally on distributions and to differentiate itself from other listed issuers on that basis. The Directors also believe that the overall arrangements (including the dual roles assumed by directors of the Trustee-Manager and HKEIL, the requirement for amounts to be held in segregated accounts pending distribution to investors and the requirement to announce and explain any future change to the distribution policy) will impose additional rigour and discipline regarding the implementation of the stated distribution policy.

The Directors believe that the Company and the Shareholders as a whole will benefit from such listing structure with a focus on distributions and a clearly expressed distribution policy given that the Group will remain a controlling holder of not less than 30% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off.

The disadvantages of adopting a listing structure involving the listing of HK Electric Investments and HKEIL and the issue of Share Stapled Units include that:

(a) It is a relatively new structure and there have only been two other transactions in the Hong Kong market that involved the listing and sale of securities similar to the Share Stapled Units. Although considerable efforts will be made to ensure that holders of Share Stapled Units would have the benefit of investor protections which are equivalent to those enjoyed by shareholders of companies listed on the Stock Exchange, there is no assurance that the courts would interpret the application of the relevant investor protection legislation to the Share Stapled Units structure in the same manner.

(b) There will be administration costs associated with HK Electric Investments, primarily as a result of the requirement that HK Electric Investments and the Trustee-Manager prepare and publish financial statements. However, these additional administration costs are not expected to be significant, having regard to the specific and limited role of the Trustee-Manager, and the Directors believe that the additional administration costs will be outweighed by the benefits that are expected to accrue to holders of Share Stapled Units in terms of the expected higher distributions as generally compared to dividends that are distributed from accounting profit referred to above.

(c) HK Electric Investments may be terminated in certain circumstances. The procedures which would apply on the termination of HK Electric Investments will be set out in detail in the Prospectus. In summary, upon such termination, the registered holders of Share Stapled Units will be entitled to have the Ordinary Shares which are Linked to the Units held by them (as components of their Share Stapled Units) distributed to them *in specie*.

Key Differences between HK Electric Investments and Other Common Forms of Trust

There are many types of trusts established for a variety of different purposes. Trusts may be listed or unlisted. The key distinguishing features of HK Electric Investments, as compared to other types of trusts are:

(a) HK Electric Investments will be a fixed single investment trust and may only invest in securities and other interests in HKEIL. The Trustee-Manager will have a specific and limited role, which is to administer HK Electric Investments. The Trustee-Manager is not actively involved in the management of the Hong Kong Electricity Business, which will be owned by the HKEIL Group and managed by the Group. The trustees or managers of other trusts typically have wider powers of investment and would typically invest in and manage a portfolio of securities issued by different entities and/or other assets, albeit consistent with a stated investment theme or mandate.

(b) While HK Electric Investments remains in effect, the Share Stapled Units may not be repurchased or redeemed by HK Electric Investments or HKEIL unless and until specific regulations which expressly permit that are introduced by the SFC. The holders of Share Stapled Units will have no right to request the Trustee-Manager to repurchase or redeem their Share Stapled Units.

(c) Any issue by HK Electric Investments and HKEIL of new Share Stapled Units on a non-*pro rata* basis will require prior approval by an ordinary resolution of Registered Holders of Units.

(d) While HK Electric Investments will not be permitted to incur any debt, the Trust Deed will not contain any restriction on the ability of HKEIL or any of its subsidiaries to incur debt or any limit on the level of such indebtedness.

OVERVIEW OF THE REMAINING BUSINESSES AND BUSINESS OF THE HKEIL GROUP

Present Businesses of the Group

At present, the Group is principally engaged in the following businesses:

(i) *Hong Kong:* the generation, transmission, distribution and supply of electricity in Hong Kong through HEC; and

(ii) *outside Hong Kong:* power businesses in the United Kingdom, Australia, the PRC, New Zealand, Thailand, Canada and the Netherlands. Such businesses include (i) electrical distribution networks in the United Kingdom, Australia and New Zealand, (ii) gas distribution networks in the United Kingdom, (iii) interests in thermal generation plants in the PRC, Canada, Thailand and the United Kingdom, (iv) wind farms in the PRC and (v) energy from waste in the Netherlands.

Since the 1990s, the Group has been actively investing in power businesses globally. Macro-economic weakness in recent years has provided the Group with the opportunity to expand its power asset portfolio and diversify its earnings base outside Hong Kong, thereby creating further value for the Shareholders. In particular, earnings from the Group's power businesses outside Hong Kong have grown from approximately HK$700 million in 2007 before the global financial crisis to approximately HK$5.1 billion in 2012, contributing to over 50% of the Company's attributable profit in the financial year ended 31 December 2012. The Company is now well-established as a leading strategic investor in power utilities globally, with cumulative cash invested by the Group of approximately HK$31.9 billion as at 31 December 2012 outside Hong Kong in a portfolio consisting mainly of regulated and contracted power projects spanning four continents.

The Group continues to identify and evaluate investment opportunities in power businesses globally from time to time and may pursue acquisitions or investments in suitable power businesses, whether on its own or jointly with other investors (including CKI). As part of such ongoing efforts, the Company is currently studying and assessing a number of potential investment opportunities. If agreement can be reached commercially regarding any one or more of those opportunities, the Company may join with, among others, CKI in relation to such proposed investment, and a connected transaction of the Company may be constituted under the Listing Rules. In such case, if required under the Listing Rules, the relevant transaction will be announced by the Company and/or the approval of the independent shareholders of the Company will be sought.

Remaining Businesses and Major JVs

After the completion of the Proposed Spin-off, if it proceeds, the Hong Kong Electricity Business will be carried on by the HKEIL Group and the Remaining Businesses of the Group (namely, the power businesses outside Hong Kong) will principally be held and operated through joint ventures and associates. Set out below is a summary of the Group's interest in its Major JVs:

Location	**Name of joint venture (and the Group's % effective interest)**	**Principal activities of the joint venture**
United Kingdom	UK Power Networks Holdings Limited (40%)(1)	Owning, operating and managing three regulated distribution networks in the United Kingdom that cover London, South East England and East England; operating certain non-regulated electricity distribution businesses in the United Kingdom, which consists predominantly of commercial contracts to distribute electricity to a number of privately owned sites, including certain major airports and railway systems
	Northern Gas Networks Holdings Limited (41.29%)(2)	Owning Northern Gas Networks Limited, which operates the Northern Gas Networks in the north of England

Location	Name of joint venture (and the Group's % effective interest)	Principal activities of the joint venture
	West Gas Networks Limited and Western Gas Networks Limited (30%)(3)	Engaging in the management of gas transportation assets and gas distribution in Wales and the southwest of England
PRC	Guangdong Zhuhai Power Station Company Limited (45%)(4)	Owning and operating power plants in Guangdong Province
	Guangdong Zhuhai Jinwan Power Company Limited (45%)(5)	Owning and operating power plants in Guangdong Province
New Zealand	Wellington Electricity Distribution Network Holdings Limited (50%)(6)	Owning Wellington Electricity Distribution Network Limited, which supplies electricity to the city of Wellington, the capital of New Zealand, and extends to the Porirua and Hutt Valley regions of New Zealand

Notes:

(1) The remaining interest in UK Power Networks Holdings Limited is held as to 40% by CKI and its subsidiaries ("**CKI Group**") and as to 20% in aggregate by Li Ka Shing Foundation Limited ("**LKS Foundation**") and Li Ka Shing (Overseas) Foundation and their respective subsidiaries.

(2) The remaining interest in Northern Gas Networks Holdings Limited is held as to 47.06% by CKI Group and as to 11.65% by an independent third party.

(3) The remaining interest in each of West Gas Networks Limited and Western Gas Networks Limited is held as to 30% by CKI Group, as to 30% by Cheung Kong (Holdings) Limited and its subsidiaries ("**CKH Group**") and as to 10% by LKS Foundation and its subsidiaries.

(4) The remaining 55% interest in Guangdong Zhuhai Power Station Company Limited is held by 珠海經濟特區廣珠發電有限責任公司 ("**Zhuhai Partner**").

(5) The remaining 55% interest in Guangdong Zhuhai Jinwan Power Company Limited is held by the Zhuhai Partner.

(6) The remaining 50% interest in Wellington Electricity Distribution Network Holdings Limited is held by CKI Group.

As a shareholder or joint venture partner, the Group nominates directors on the respective boards of the Major JVs. The nominated directors, together with other directors nominated by other joint venture party or parties sharing control of the Major JVs, can act collectively to direct the activities that significantly affect the returns of the joint arrangement (i.e. the relevant activities). The Major JVs, which have in the past been classified by the Company as associates or jointly controlled entities, should be classified by the Company as joint ventures while remain to be accounted for in the Group's financial statements using the equity method of accounting.

If the Proposed Spin-off is approved and the Global Offering proceeds, after the Proposed Spin-off, there will be a clear delineation between the businesses of the HKEIL Group and the other businesses of the Group. The HKEIL Group will be engaged in the businesses of generation, transmission, distribution and supply of electricity in Hong Kong. The HKEIL Group will remain committed to supporting Hong Kong's long-term economic development and will continue to maintain world-class service and power supply reliability to its customers through continuous investments in all areas of power generation, transmission, distribution and supply in Hong Kong. On the other hand, the Remaining Group will continue to focus on its principal businesses in power-related facilities and projects outside Hong Kong. The proceeds from the Proposed Spin-off will provide the Remaining Group with enhanced financial strength to seek further acquisitions in the global power sector outside of Hong Kong. For additional details, please refer to the section headed "*Reasons for and Benefits of the Proposed Spin-off*" in this letter below.

Scheme of Control in respect of the Hong Kong Electricity Business

The operations of the Hong Kong Electricity Business are subject to the Scheme of Control entered into with the Hong Kong Government. The current Scheme of Control was entered into on 7 January 2008 for a term of ten years from 1 January 2009 to 31 December 2018, with an option for the Hong Kong Government to extend it for a further term of five years ending 31 December 2023.

Permitted Return

Under the terms of the Scheme of Control, HEC is entitled to full recovery of its total operating costs from its Gross Tariff Revenue, and a permitted level of earnings based principally on a return on HEC's capital investment in electricity generation, transmission and distribution assets. Subject to deduction of certain interest on borrowed capital for the financing of Fixed Assets and certain other deductions and adjustments, the Scheme of Control provides for a Permitted Return for each year equal to (i) 9.99% of the total value of HEC's Average Net Fixed Assets other than those attributable to its Average Renewables Net Fixed Assets for that year and (ii) 11% of the total value of HEC's Average Renewables Net Fixed Assets for that year.

The Scheme of Control requires HEC to maintain a Tariff Stabilisation Fund, the main purpose of which is to accumulate and provide funds to ameliorate tariff increases and facilitate tariff reductions where appropriate. In each year, where the Gross Tariff Revenue exceeds the Tariff Stabilisation Adjustments, the amount of such excess is transferred from HEC's statement of profit or loss to the Tariff Stabilisation Fund. Conversely, when there is a deficiency, the amount of such deficiency is transferred from the Tariff Stabilisation Fund to HEC's statement of profit or loss for that year, provided that the amount transferred may not exceed the balance of the Tariff Stabilisation Fund, which may not go into a deficit position.

HEC's Average Net Fixed Assets and Average Renewables Net Fixed Assets are in part dependent upon the level of its capital expenditure. The Scheme of Control provides for a Development Plan which sets out, among other things, HEC's projected capital expenditure and projected Basic Tariff Rate for each of the five years covered under such Development Plan and is subject to discussion with the Hong Kong Government and approval by the Executive Council.

2014-2018 Development Plan

The 2014-2018 Development Plan was approved by the Executive Council of the Hong Kong Government (the "**Executive Council**") on 10 December 2013. The 2014-2018 Development Plan provides for an estimated total investment by HEC of approximately HK$13.0 billion in new and existing capital projects over its five year term, of which approximately HK$6.1 billion will be spent on its power generation system (inclusive of the estimated HK$3.0 billion in relation to the L10 Project), approximately HK$5.3 billion will be spent on its transmission and distribution networks and approximately HK$1.6 billion will be spent on its customer and corporate services development. This estimated total capital expenditure of approximately HK$13.0 billion represents an increase of approximately 5.7% over the approved total capital expenditure of approximately HK$12.3 billion under the Development Plan for the period from 1 January 2009 to 31 December 2013, and is expected to be funded by cash from the HKEIL Group's operating activities, bank loans and/or other debt markets fund raising activities. The estimated total capital expenditure as approved under the 2014-2018 Development Plan represents HEC's continued commitment to provide a safe and reliable electricity supply to customers. The Hong Kong Government's energy consultant considers that the L10 Project is necessary and justified for ensuring operational reliability and the proposed budget to be reasonable. However, as the Hong Kong Government will undertake a review of the future fuel mix policy for electricity generation in Hong Kong and a review of the electricity supply regulatory framework for the electricity market after the expiry of the current scheme of control agreements in respect of the two power companies (collectively, the "**Reviews**"), the Hong Kong Government has included the L10 Project in the 2014-2018 Development Plan on a provisional basis only. The commencement of the L10 Project is subject to the receipt of a written confirmation from the Hong Kong Government which may only be issued after it has completed the Reviews. Accordingly, unless and until the Hong Kong Government issues such written confirmation, HEC may not include the capital expenditure of HK$3.0 billion in respect of the L10 Project in the 2014-2018 Development Plan, or apply the Basic Tariff Rates categorised as "projected Basic Tariff Rate with L10 Project" as detailed below.

On 10 December 2013, the Executive Council also approved, under the 2014-2018 Development Plan, the projected Basic Tariff Rate for each of the years from 1 January 2014 to 31 December 2018 as follows:

	For the year ending 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	(Hong Kong cents per kWh)				
Projected Basic Tariff Rate without L10 Project	101.8	101.7	100.9	100.0	99.0
Projected Basic Tariff Rate with L10 Project	101.8	101.7	101.0	100.4	100.0

The above "projected Basic Tariff Rate without L10 Project" category will apply during the period from 1 January 2014 to 31 December 2018. If the L10 Project commences in 2016 as scheduled, the above "projected Basic Tariff Rate with L10 Project" category will be applicable in the relevant period instead. In comparison to the year ending 31 December 2013, the Basic Tariff Rate for the year ending 31 December 2014 will be increased by HK$0.071 per kWh, or approximately 7.5%, to HK$1.018 per kWh. However, the effect of the fluctuations in the projected Basic Tariff Rate during the period from 1 January 2014 to 31 December 2018 (regardless of whether the estimated capital expenditure for the L10 Project is included) on the net tariff to be charged to customers is expected to be offset by an adjustment in the Fuel Clause Charge such that the average net tariff is expected to be largely stable for the same period.

2013 Interim Review

The Scheme of Control provides that each of HEC and the Hong Kong Government has the right during the year ending 31 December 2013, and if the term of the current Scheme of Control is extended until 2023, during the year ending 31 December 2018, to request modifications to the Scheme of Control. However, any modifications must be mutually agreed by the parties in writing before they take effect. In November 2013, as part of the 2013 interim review of the Scheme of Control, HEC agreed in principle with the Hong Kong Government to implement certain modifications to the Scheme of Control, which are broadly in relation to the following: (i) an energy efficiency fund will be established to provide, subject to a ceiling, subsidies to owners of non-commercial buildings to carry out improvement works to enhance the energy efficiency of their buildings. The amount to be paid by HEC into the energy efficiency fund will be equal to the financial incentive payment that HEC will from time to time receive under the energy efficiency incentive mechanism in the Scheme of Control for outperforming the energy audits and energy saving targets. In addition, a loan fund of HK$12.5 million per annum over a five-year period established by HEC to provide interest-free loans to non-Hong Kong Government customers to implement energy-saving initiatives will be extended for a further period of five years; (ii) the performance thresholds will be raised for incentive payments and penalties payable in respect of supply reliability, operational efficiency and customer services; (iii) the cap on the balance of the Tariff Stabilisation Fund will be lowered from 8% to 5% of HEC's annual total revenues from sales of electricity to customers (including Fuel Cost Account Adjustment and excluding rebates and charges during that year); (iv) improvement will be made in the public disclosure of certain financial and operational data relating to the latest approved Development Plan and the proposed tariff adjustments for the upcoming year upon the conclusion of each annual tariff review exercise; (v) HEC will streamline the administration of the Rate Reduction Reserve from the end of 2013 such that the year-end balance of the Rate Reduction Reserve for any given year will be transferred to the Tariff Stabilisation Fund in the subsequent year; and (vi) relevant expenditures incurred in respect of HEC's pre-project studies and assessments will be initially placed in a separate suspense account, and such expenditures will be included as Fixed Assets for calculating the Permitted Return only after a decision is made to proceed with the projects. The above modifications will take effect once the written agreement modifying the terms of the Scheme of Control is executed by all parties to the Scheme of Control.

While an agreement in principle has been reached in respect of the above modifications to the Scheme of Control, during HEC's discussions with the Hong Kong Government, HEC has maintained its position that no fundamental changes to the Scheme of Control should be made during the 2013 interim review and has rejected the proposals from the Hong Kong Government in the following areas: (a) reduction of the rates of Permitted Return; (b) tightening of the mechanism for treating excess generating capacity by excluding any generating unit that fails the excess capacity test from earning the Permitted Return; (c) exclusion of investments in any new or existing emission control facilities from earning the Permitted Return; (d) return to customers 50% of the capital gain from the disposal of fixed assets if the proceeds exceed the original costs; (e) prior approval from the Executive Council to be obtained if a tariff increase exceeds the composite consumer price index published by the Hong Kong Government's Census and Statistics Department; and (f) removal of the emissions performance linkage mechanism as set out in the Scheme of Control, which currently awards incentive for the outperformance or imposes penalty for the underperformance in respect of emission reduction thresholds. Accordingly, no changes will be introduced to the Scheme of Control in relation to these rejected proposals as a result of the 2013 interim review. The Hong Kong Government has indicated that it will take into account views and comments received when conducting an overall review of the future regulatory framework for the electricity market after the expiry of the current Scheme of Control, and that such overall review will be conducted in 2014 as a separate exercise.

Possible Modifications to the Scheme of Control in Future

The Hong Kong Government could, whether or not as part of an interim review, request additional modifications to the Scheme of Control in the future. Such modifications could, among other things, result in any or all of the following: (i) affect the rate and calculation of the Permitted Return; (ii) alter the incentives and penalties contained in the Scheme of Control; (iii) impact the financial treatment of Fixed Assets in certain situations; (iv) link net tariff increases to a certain price index; and (v) require enhancement of the disclosure of costs. If such modifications were to be made to the Scheme of Control or any successor scheme of control agreement, HEC's business, financial condition and results of operations could be materially and adversely impacted.

Extension of the current Scheme of Control

If the Hong Kong Government does not exercise its option to extend the term of the current Scheme of Control for a further term of five years ending on 31 December 2023, under the current Scheme of Control HEC will, for the period from 1 January 2019 to 31 December 2023, through reasonable arrangements determined by the Hong Kong Government after consultation with HEC, continue to be entitled to earn from the market the same Permitted Return annually which it currently earns under the Scheme of Control (after recovery of tax and total operating costs and subject to deduction of certain interest on borrowed capital for financing Fixed Assets and other applicable deductions, with the assets to be taken into account for calculating the Permitted Return to include only assets that continue to be used in HEC's electricity related activities, and not to include any assets acquired or invested in after 31 December 2018 unless they have been reasonably and prudently purchased for use in HEC's electricity related activities and only if the purchase of such assets has been approved by the Hong Kong Government).

INDEPENDENCE OF THE HKEIL GROUP FROM THE GROUP

Clear delineation between the businesses of the HKEIL Group and the Remaining Businesses and Non-Competition Undertaking by the Company

As shown above, there will be a clear delineation of the businesses of the HKEIL Group and the Remaining Businesses of the Group upon completion of the Proposed Spin-off. In order to further strengthen the clear delineation between the businesses of the HKEIL Group and the businesses of the Group, it is proposed that if the Proposed Spin-off proceeds, it is intended that with effect from the Listing Date:

(i) the Company will undertake not to compete with the HKEIL Group in the Hong Kong Electricity Business until the earlier of (1) the date on which the Company ceases to be interested in at least 30% of the Share Stapled Units in issue and (2) the date on which the Share Stapled Units cease to be listed on the Stock Exchange (the "**Non-Competition Undertaking**"); and

(ii) any connected transactions between the HKEIL Group and the Group will be transacted in compliance with the applicable requirements of the Listing Rules (subject to any waiver(s) and modifications which may be granted and made by the Stock Exchange).

The exceptions under the Non-Competition Undertaking provide that the Remaining Group shall be permitted to hold shares or be interested in shares or other securities in any company which conducts or is engaged in the business of generation, transmission, distribution and supply of electricity in Hong Kong (the "**Subject Company**"), provided that:

(a) such shares or securities are listed on an approved stock exchange (as defined under the Companies Ordinance);

(b) the aggregate equity interest or number of shares held by the Remaining Group do not exceed 10% of the issued capital or issued shares of the Subject Company; and

(c) the Remaining Group does not have board or management control of the Subject Company.

Financial independence of the HKEIL Group from the Group

As at the Latest Practicable Date, Inter-company Loans in the aggregate principal amount of approximately HK$27,445.3 million were owed by HEC to the Group. The Inter-company Loans, to the extent not repaid prior to the Listing, are expected to be repaid by HEC on or before the fifth business day following the Listing Date using the proceeds from the HEC Loan Facility. Such Inter-company Loans will include interim dividends declared by HEC but not yet paid to the Company prior to the Completion as mentioned above. In addition, any amount of profit attributable to the equity shareholders of HEC up to Completion which shall belong to the Company and which is not distributed to the Company prior to Completion shall be distributed by HEC to Treasure Business as a further interim dividend of HEC, and Treasure Business will pay the same amount to the Company not later than 30 April 2014.

In connection with the Disposal, part of the Disposal Consideration will be settled by way of the Promissory Note to be issued by Treasure Business to the Company on the Completion Date (which is the same date as the Listing Date). The Promissory Note is expected to be redeemed by the payment of cash on or before the fifth business day following the Listing Date using part of the proceeds from the HKEIL Loan Facility.

The Inter-company Loans as at the Listing Date and the Promissory Note, and apportionment of entitlements between the Company and the HKEIL Group before and after Completion, are expected to be settled within a relatively short period of time after the Listing Date.

In addition, certain leading financial institutions have extended facilities to HEC which are not guaranteed by the Group. As at the Latest Practicable Date, HEC had no outstanding bank loans drawn down. During the Track Record Period, HEC had a positive cash flow position before taking into account dividends paid to the Company.

Accordingly, the HKEIL Group will be financially independent of the Group following the Listing. It is expected that, immediately after the Listing and the drawdown of the HKEIL Loan Facility and the HEC Loan Facility, the aggregate borrowings of the HKEIL Group will be approximately HK$48,328.5 million which is expected to comprise (i) approximately HK$28,300 million to be borrowed under the HEC Loan Facility, (ii) outstanding amounts of approximately HK$11,328.5 million under the medium term notes issued by HEFL pursuant to its medium term note programme and (iii) approximately HK$8,700 million to be borrowed under the HKEIL Loan Facility.

Independence of directors and management

If the Global Offering proceeds, following completion of the Proposed Spin-off, the board of directors of HKEIL (the composition of which will be identical to the board of directors of the Trustee-Manager) and the Board will be able to operate independently of each other. It is expected that among the six proposed executive directors of HKEIL on the Listing Date, three of them will not have any directorship or management role in the Remaining Group.

Under the current proposed board composition, four of the nine existing executive Directors (namely, Mr. FOK Kin Ning, Canning, Mr. WAN Chi Tin, Mr. CHAN Loi Shun and Mr. Andrew John HUNTER) will continue to be executive Directors after the Listing. The proposed directors of the Company and of HKEIL upon the Listing will be as follows:

Directors:

Name	Position in the Company upon the Listing	Position in HKEIL upon the Listing
Mr. FOK Kin Ning, Canning	Chairman and Executive Director	Chairman and Executive Director
Mr. WAN Chi Tin	Executive Director [(1)]	Chief Executive Officer and Executive Director
Mr. CHAN Loi Shun	Executive Director	Executive Director
Mr. TSAI Chao Chung, Charles	Chief Executive Officer and Executive Director	None
Mr. Andrew John HUNTER	Executive Director	None
Mr. Neil Douglas MCGEE	Executive Director	None
Mr. Frank John SIXT	Non-executive Director	None
Mr. LI Tzar Kuoi, Victor	Non-executive Director	None
Mr. Holger KLUGE	Independent Non-executive Director	None
Mr. Ralph Raymond SHEA	Independent Non-executive Director	None
Mr. WONG Chung Hin	Independent Non-executive Director	None
Mrs. CHOW WOO Mo Fong, Susan	None [(2)]	Executive Director
Mr. YUEN Sui See	None [(2)]	Executive Director
Mr. CHENG Cho Ying, Francis	None	Executive Director
Mr. TSO Kai Sum	None [(3)]	Non-executive Director
Mr. Ronald Joseph ARCULLI	None [(2)]	Non-executive Director
Mr. FONG Chi Wai, Alex	None [(2)]	Independent Non-executive Director
Mr. LEE Lan Yee, Francis	None [(2)]	Independent Non-executive Director
Mr. George Colin MAGNUS	None [(2)]	Independent Non-executive Director
Mr. Donald Jeffrey ROBERTS	None	Independent Non-executive Director

Notes:

(1) Mr. WAN Chi Tin, who is currently an executive director and the group managing director of the Company, will cease to act as the group managing director of the Company prior to the Listing if the Proposed Spin-off proceeds and will remain as an executive director of the Company.

(2) Mrs. CHOW WOO Mo Fong, Susan, Mr. YUEN Sui See, Mr. Ronald Joseph ARCULLI, Mr. FONG Chi Wai, Alex, Mr. LEE Lan Yee, Francis and Mr. George Colin MAGNUS, who are currently directors of the Company, will cease to act as directors of the Company prior to the Listing if the Proposed Spin-off proceeds.

(3) Mr. TSO Kai Sum, who is currently a non-executive director of the Company and the deputy chairman and senior adviser to the Board, will cease to hold such positions prior to the Listing if the Proposed Spin-off proceeds.

(4) An additional independent non-executive director of the Company will be appointed prior to the Listing if the Proposed Spin-off proceeds, so that the total number of independent non-executive directors of the Company will represent at least one-third of the Board upon the Listing.

Moreover, the senior management of the Group and the HKEIL Group will function independently as a vast majority of the members of each senior management teams do not have management roles in the other group. Under the current proposed composition, the senior management of the Group and of the HKEIL Group upon the Listing will be as follows:

Senior Management:

Name	**Position in the Group upon the Listing**	**Position in the HKEIL Group upon the Listing**
Mr. TSAI Chao Chung, Charles	Chief Executive Officer	None
Mr. CHAN Kee Ham, Ivan	Chief Financial Officer	None
Ms. Mary TANG	Assistant General Manager	None
Mr. Thomas FUNG	Assistant General Manager (Business Development)	None
Mr. Jeffrey KWOK	Senior Manager (Business Development)	None
Mr. Patrick CHEUNG	Senior Manager (Business Development)	None
Mr. Keith PAK	Senior Manager (Business Development)	None
Mr. WAN Chi Tin	None[(1)]	Chief Executive Officer
Mr. WONG Kim Man	None	Chief Financial Officer
Ms. CHAN Lai Yee, Trini	None	General Manager (Human Resources)
Mr. CHENG Cho Ying, Francis	None	General Manager (Generation)

Name	Position in the Group upon the Listing	Position in the HKEIL Group upon the Listing
Mr. CHAN Ping Kee	None	General Manager (Transmission & Distribution)
Mr. LAU Chi Kwong	None	General Manager (Projects)
Mr. NG Wai Cheong, Alex	Group Legal Counsel & Company Secretary	Group Legal Counsel & Company Secretary
Mr. WONG Yuk Keung, Arthur	None	General Manager (Group Commercial)
Mr. YEE Tak Chow	None	General Manager (Corporate Development)
Ms. YEUNG Yuk Chun, Mimi	None	General Manager (Public Affairs)

Note:

(1) Mr. WAN Chi Tin will remain as an executive director of the Company following the Listing.

Ongoing and future transactions between the Group and the HKEIL Group

It is expected that the following transactions between the Group and the HKEIL Group will continue after the Listing, which will be continuing connected transactions of HK Electric Investments and HKEIL under Chapter 14A of the Listing Rules following the Listing and will be conducted on normal commercial terms:

(a) sharing of administrative and support services; and

(b) on-sale of natural gas purchased from independent third parties by the Company to HEC.

PROPOSED ARRANGEMENT IN RELATION TO THE PROPOSED SPIN-OFF WITH CKI

CKI currently holds a 38.87% shareholding interest in the Company. CKI is an infrastructure company with diversified investments globally in energy infrastructure, transportation infrastructure (highway, bridges and toll roads), water infrastructure, waste management, and infrastructure related businesses (such as cement, concrete and aggregates).

If the Global Offering proceeds, following the completion of the Proposed Spin-off, it is intended that the Company and CKI will continue to leverage their respective areas of expertise, with the Company focusing on investments in power projects and CKI focusing on non-power projects.

To facilitate the Proposed Spin-off and enhance this delineation between the future business focuses of the Company and CKI, it is proposed that if the Proposed Spin-off proceeds, with effect from the Listing Date:

(i) CKI will undertake that if it is offered an opportunity to invest in any power projects (for this purpose, including gas projects), it will inform the Company and refer such investment opportunity to the Company for evaluation. Subject to paragraph (ii) below, CKI may only invest in any power project if the Company (with the endorsement of the independent non-executive directors of the Company (the "**INEDs**") or a committee of the INEDs):

  (1) declines to invest in the power project; or

  (2) elects to invite CKI to participate as a co-investor in the power project.

(ii) For any investment opportunity in respect of a power project where the interest available for investment or acquisition is of an enterprise value (as determined by the Company) not exceeding HK$4 billion (or equivalent) (the "**Relevant Enterprise Value Threshold**"), the Company will not invite CKI to participate as a co-investor in the power project. The Company may (through the procedure involving the INEDs as mentioned in the immediately preceding paragraph (i) above) elect to invite CKI to participate as a co-investor in a power project only if the interest available for investment or acquisition is of an enterprise value exceeding the Relevant Enterprise Value Threshold.

(iii) The undertaking from CKI will terminate on the earlier of (1) the date on which CKI ceases to own at least a 30% shareholding interest in the Company and (2) the date on which the Company's shares cease to be listed on the Stock Exchange.

(iv) Any future co-investment by the Company and CKI in power projects will also be subject to compliance with the applicable requirements of the Listing Rules, including independent shareholders' approval (if required).

Under the above proposed arrangement, investment opportunities in respect of any power project where the interest available for investment or acquisition is of an enterprise value not exceeding the Relevant Enterprise Value Threshold will be evaluated and decided on by the Company alone and (if successfully acquired or invested in) the Company will participate in the operation and management of the investment alone. It is only when an investment opportunity is pursued as a co-investment by the Company and CKI (in accordance with the threshold and procedures described above) that such investment opportunity will be evaluated and decided on by the Company and CKI together; and in such case, if the acquisition or investment is successfully made, representatives from each of the Company and CKI will participate in the operation and management of the investment.

Further, under the proposed arrangement, if, in compliance with connected transaction requirements under the Listing Rules, any proposed investment by the Company in a particular power project with CKI is required to be approved by the independent Shareholders of the Company, CKI will not be prohibited from participating in the power project if the independent Shareholders do not approve the proposed investment by the Company.

FUTURE COMPLIANCE BY AND DISCLOSURE OF FINANCIAL INFORMATION OF JOINT VENTURES OF THE COMPANY

As mentioned above, the Remaining Businesses will be conducted through joint ventures and associates of the Company.

Future Compliance of Listing Rules by the Joint Ventures

If the Global Offering proceeds, after the Proposed Spin-off, the Company and its subsidiaries will comply with the continuing obligations under the Listing Rules, and the Major JVs, AVR-Afvalverwerking B.V., Electricity First Limited, Transmission Holdings (Bahamas) Limited, Stanley Power Inc., Jilin Siping Group and any other joint venture of the Company that is material to the Company (collectively, the "**Joint Ventures**") will also be subject to the continuing obligations governing subsidiaries, including those in Chapters 13, 14, 14A, 15 and 17 of the Listing Rules and PN15 subject to the following modifications, unless any such Joint Venture ceases to be a joint venture of the Company under the applicable accounting standards:

Chapter 13 - The Joint Ventures' activities will be treated as the Company's activities and will be subject to the obligation to disclose information under Rule 13.09(1) and Rule 13.09(2)(b) of the Listing Rules. However, Rules 13.12 to 13.19 of the Listing Rules will not apply to the joint ventures.

Chapter 14 - The percentage ratio tests for classifying different transactions will be adjusted to take into account only the proportionate interest of the Company's in the relevant Joint Venture. For example, in an acquisition by a 50/50 Joint Venture, the Company will only account for 50% (being its proportionate share in the joint venture) of the acquisition cost of the target in calculating the numerator of the consideration ratio.

Chapter 14A - The percentage ratio tests for *de minimis* connected transactions with the Joint Venture will be adjusted to take into account the proportionate interests of the Company in the relevant Joint Venture.

Connected persons of the Company will include the directors and joint venture partners of the Joint Venture and their respective associates (within the meaning in the Listing Rules). As a result, transactions between the Company (including the Joint Ventures) and (i) the joint venture partners of the Joint Ventures and their associates (within the meaning in the Listing Rules); (ii) the directors of the Joint Ventures and their associates (within the meaning in the Listing Rules); or (iii) the connected persons of the Company (e.g. the substantial shareholder and its associates (within the meaning in the Listing Rules)), will be considered connected transactions.

The Stock Exchange may deem transactions involving amending the terms of the joint venture to be connected transactions. The decision will involve an assessment of materiality and minority shareholders' protection.

Disclosure of key financial information in respect of the Joint Ventures

After the Proposed Spin-off, the Company will disclose key financial information for each Joint Venture in accordance with the applicable accounting standards, unless it ceases to be a joint venture of the Company under the applicable accounting standard. Under the current applicable accounting standard under HKFRS, for joint ventures that are not material to the Company, only the aggregated key financial information is required to be disclosed.

REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Board believes that the Proposed Spin-off will bring clear commercial benefits to the Company for the following reasons:

(a) **Enhancement of the Company's existing value:** The Board believes that the Proposed Spin-off will unlock value for the Shareholders by better identifying and establishing the fair value of the HKEIL Group's business. In addition, the Board believes that the Proposed Spin-off will crystallise value for the Company's international businesses through more visibility and additional disclosure of their financial information, including revenues, profits, total assets and total liabilities of the Major JVs. The Board anticipates that such value will represent a substantial enhancement to the Company's existing value within the confines of the Company's listing, which will, in turn, increase the value of the Company to the benefit of all of the Shareholders.

(b) **Significant proceeds to the Company from the Proposed Spin-off:** The Company will receive substantial proceeds from the disposal of the Company's shareholding interest in HEC, which will enable the Company to continue to pursue new acquisitions in the global power industry, while maintaining a strong financial profile. The Board expects that if the Proposed Spin-off is effected and based on the Minimum Trust Group Market Capitalisation of HK$48 billion, the Group will record an estimated unaudited gain of at least approximately HK$53 billion from the Disposal, representing the difference between the estimated Disposal Consideration and the consolidated net asset value of the Disposal Group as at 30 June 2013, adjusted to take into account the repayment of loan capital and the distribution of revenue reserves by HEC to the Company and the estimated transaction costs and stamp duty. The amount of actual gain that the Group is able to realise from the Disposal will depend on the final amount of the Disposal Consideration which can only be determined following the determination of the Offer Price and the actual carrying amounts of the assets and liabilities of the Disposal Group on Completion.

    The Group has been actively investing in power businesses globally since the 1990s and creating further value for Shareholders. In particular, earnings from the Group's power businesses outside Hong Kong have grown from approximately HK$700 million in 2007 before the global financial crisis to approximately HK$5.1 billion in 2012, contributing to over 50% of the Company's attributable profit in the financial year ended 31 December 2012.

(c) **More defined focus and efficient resource allocation:** The Board believes that the Proposed Spin-off will allow the Company's management to focus its time and resources more effectively on identifying new acquisition and investment opportunities to further develop its power portfolio outside of Hong Kong.

(d) **Alignment with the appropriate investor base:** Over the last five financial years, the Company's power businesses outside Hong Kong has grown significantly from contributing to less than 10% of the Company's attributable profit in the financial year ended 31 December 2008 to contributing to over 50% of the Company's attributable profit in the financial year ended 31 December 2012. The Proposed Spin-off will enable the Company's remaining business to be valued on a stand-alone basis, with more visibility on its growth profile and asset quality. This will help the Company attract investors who are specifically seeking to invest in a reputable and established global player to gain direct exposure to a balanced portfolio of carefully-selected, world class power businesses with predictable income streams and future acquisition growth.

The Board also believes that the Proposed Spin-off will bring clear commercial benefits to the Trust Group for the following reasons:

(a) **Align with appropriate investor base thereby achieving fair valuation of the HKEIL Group's business:** The Proposed Spin-off will allow HK Electric Investments and HKEIL to align the stable cash flow generating characteristics of the HKEIL Group's business with investors that favour a clearly expressed distribution policy, stable dividend yields, and pure-play investments, thereby more appropriately valuing the HKEIL Group's business.

(b) **More defined focus and efficient resource allocation:** The Proposed Spin-off will allow the HKEIL Group's management to focus on developing the HKEIL Group's business, thereby eliminating the need to oversee investments in assets outside of Hong Kong.

(c) **Separate fundraising platform enhancing financing flexibility:** In addition to the existing debt capital market fundraising platform, the Proposed Spin-off would allow HK Electric Investments and HKEIL to have a separate fundraising platform, which will increase financing flexibility to support the HKEIL Group's strategies. In conjunction with the Proposed Spin-off, the HKEIL Group intends to recapitalise its balance sheet to become more in line with its industry peers in order to optimise its cost of capital. In particular, the HKEIL Group expects to have debt of approximately HK$50 billion immediately following the completion of the Proposed Spin-off.

LISTING RULES IMPLICATIONS

The Proposed Spin-off constitutes a deemed disposal by the Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Proposed Spin-off is or are expected to be 75% or more, the Proposed Spin-off, if it proceeds, will constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

EGM

The EGM shall be convened for the purpose of allowing the Shareholders to consider and, if thought fit, approve, the Proposed Spin-off.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting on the ordinary resolution to approve the Proposed Spin-off.

A notice convening the EGM to be held on Monday, 6 January 2014 at 10:30 a.m. at the Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong is set out on pages 230 to 232 of this circular.

Regardless of whether or not you are able to attend the EGM or any adjourned meeting in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the registered office of the Company at 44 Kennedy Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire.

CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY

The register of members of the Company will be closed from Thursday, 2 January 2014 to Monday, 6 January 2014 (both days inclusive) for the purpose of determining the eligibility of Shareholders to attend and vote at the EGM, during which time no transfer of Shares will be effected. In order to be eligible for attending and voting at the EGM, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 31 December 2013.

The register of members of the Company will further be closed on Friday, 10 January 2014 (or such other date(s) as the Board may determine and announce) for the purpose of determining the Assured Entitlement of the Qualifying Shareholders on which date no transfer of Shares will be effected. In order to qualify for the Preferential Offering, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 9 January 2014 (or such later date as the Board may determine and announce). The last day for dealing in the Shares cum-entitlements to the Preferential Offering is expected to be on Tuesday, 7 January 2014.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except as provided under that rule. Therefore, the ordinary resolution set out in the notice convening the EGM as set out in this circular will be taken by poll.

CKI, which through its wholly-owned subsidiaries currently holds a 38.87% shareholding interest in the Company, has indicated to the Company that CKI and its subsidiaries will cast all their votes in favour of the ordinary resolution for approving the Proposed Spin-off and the related transactions at the EGM.

After the conclusion of the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

In accordance with the requirements of paragraph 3(e)(4) of PN15:

(a) an Independent Board Committee comprising Mr. Holger KLUGE, Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin, all being the Company's independent non-executive Directors, has been established by the Company to consider the Proposed Spin-off, and to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote at the EGM in respect of the ordinary resolution to approve the Proposed Spin-off, taking into account the recommendation of the Independent Financial Adviser in that regard; and

(b) Somerley Limited has been appointed as an independent financial adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders of concerned and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote at the EGM in respect of the ordinary resolution to approve the Proposed Spin-off.

RECOMMENDATION

The Directors (other than the members of the Independent Board Committee, whose recommendation is set out in the Letter from the Independent Board Committee on page 62 of this circular) are of the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (other than the members of the Independent Board Committee, whose recommendation is set out in the Letter from the Independent Board Committee on page 62 of this circular) recommend the Shareholders to vote in favour of the relevant ordinary resolution for approving the Proposed Spin-off at the EGM.

GENERAL

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, if the Proposed Spin-off is approved and the Global Offering proceeds the proposed subscribers (and their respective ultimate beneficial owners) for Share Stapled Units under the Global Offering, will be third parties independent of the Company and its connected persons, except that:

(a) all Qualifying Shareholders on the Record Date (including connected persons of the Company who are Qualifying Shareholders) will be entitled to participate in the Preferential Offering; and

(b) an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 10.03 of the Listing Rules to permit directors of the Trustee-Manager and HK Electric Investments (and their associates (within the meaning of the Listing Rules)) who are Shareholders to subscribe for Share Stapled Units under the Preferential Offering.

Prior to the publication of this circular there has been, and there may be subsequent to the date of this circular and prior to the EGM, press, media and/or research analyst coverage regarding the Trust Group and the Global Offering, which have or may include certain financial projections and other forward-looking statements and information about the Trust Group which do not appear in this circular or will not appear in the Prospectus. Published news reports and research analyst reports should not, in any way, be interpreted as profit forecasts or profit projections by the Trust Group. The Company, the Trustee-Manager and HKEIL do not accept any responsibility for any such press, media or research analyst coverage or the accuracy or completeness of any such information and make no representation as to the appropriateness, accuracy, completeness or reliability of any such information. If any such information appearing in publications other than this circular or the Prospectus is inconsistent or conflicts with the information contained in this circular or the Prospectus, the Company, the Trustee-Manager and HKEIL disclaim such information. Accordingly, you should only rely on the information included in this circular and the Prospectus and not on any other information not contained herein or therein.

In connection with the Global Offering, the price of the Share Stapled Units may be stabilised in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). Details of any intended stabilisation and how it will be regulated under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) will be contained in the Prospectus, if the Proposed Spin-off proceeds.

Shareholders and potential investors in the Company are reminded that the implementation of the Proposed Spin-off and the Global Offering is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied, including the approval of the Stock Exchange and the final decision of the Board and of the boards of directors of the Trustee-Manager and HKEIL, market conditions and other considerations. There is no certainty as to whether, and if so when, the Proposed Spin-off and the Global Offering will take place. The Board will not proceed with the Proposed Spin-off if the Minimum Trust Group Market Capitalisation cannot be achieved (unless further approved by Shareholders). Even if approval of the Shareholders at the EGM is obtained and the Minimum Trust Group Market

Capitalisation is achieved, the decision whether to proceed with the Proposed Spin-off will be at the discretion of the Directors, and, when doing so, the Directors will take into account all factors and other considerations they consider relevant, including prevailing market conditions, the Offer Price that can be achieved and whether the Company's expected gain from the Disposal will, in their view, maximise the benefits to the Company and the Shareholders. Accordingly, Shareholders, holders of other securities of the Company and potential investors in the securities of the Company should exercise caution when dealing in or investing in the shares or other securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their positions. The timetable for the Global Offering, including the Preferential Offering, will be set out in the Prospectus to be jointly issued by HK Electric Investments and HKEIL in connection with the Global Offering.

This circular is being provided to you solely for your consideration of the matters being determined at the EGM and is not intended to, and does not, constitute an offer to sell or a solicitation of an offer to subscribe or buy any Share Stapled Units in connection with the Global Offering or otherwise. Any such offer or solicitation will be made solely through a prospectus or offering circular in compliance with applicable laws and any decision to purchase or subscribe for Share Stapled Units in connection with the Global Offering or otherwise should be made solely on the basis of the information contained in the relevant prospectus or offering circular. Other than in Hong Kong and a proposed public offering without listing in Japan, no action has been or will be taken in any jurisdiction that would permit a public offering of the Share Stapled Units to be offered in the Global Offering in any jurisdiction where action for that purpose is required, including the United States.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Power Assets Holdings Limited
FOK Kin Ning, Canning
Chairman

Power Assets Holdings Ltd.
電能實業有限公司

Incorporated in Hong Kong with limited liability
Stock Code: 6

16 December 2013

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE GROUP'S HONG KONG ELECTRICITY BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Reference is made to the circular dated 16 December 2013 of the Company (the "**Circular**") of which this letter forms part. Terms defined in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise you on the fairness and reasonableness of the terms of the Proposed Spin-off, details of which are set out in the letter from the Board contained in the Circular. Somerley Limited has been appointed as the Independent Financial Adviser to advise us and the Shareholders in this respect.

We wish to draw your attention to the letter from the Board on pages 14 to 61 of the Circular, which sets out, among other things, information in connection with the Proposed Spin-off. We also wish to draw your attention to the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, which contains its advice in respect of the Proposed Spin-off, set out on pages 63 to 92 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of Somerley as set out in its letter of advice, we consider that the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole and we recommend the Shareholders to vote in favour of the ordinary resolution for approving the Proposed Spin-off at the EGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Holger KLUGE	**Ralph Raymond SHEA**	**WONG Chung Hin**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the full text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders prepared for inclusion in this circular.

SOMERLEY LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

16 December 2013

To: the Independent Board Committee and the Shareholders

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE GROUP'S HONG KONG ELECTRICITY BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off. Details of the Proposed Spin-off are contained in the "Letter from the Board" set out in the circular to the Shareholders dated 16 December 2013 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

The Proposed Spin-off is anticipated to be effected by way of the Reorganisation (including the Disposal) and the Global Offering, pursuant to which the Share Stapled Units will be offered for subscription by way of (i) a public offering of Share Stapled Units in Hong Kong; and (ii) an international offering of Share Stapled Units to professional, institutional and other investors, which includes a preferential offering of Share Stapled Units to Qualifying Shareholders. As one or more of the applicable percentage ratios represented by the Proposed Spin-off is or are expected to be 75% or more, the Proposed Spin-off, if it proceeds, will constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly and pursuant to Practice Note 15 of the Listing Rules, the Proposed Spin-off will be subject to, amongst other things, the shareholders' approval requirements under the Listing Rules.

In order to provide assured entitlements to the Shareholders under the Listing Rules, Qualifying Shareholders will be entitled to apply for a certain number of Share Stapled Units (subject to certain conditions) by way of the Preferential Offering. As the controlling Shareholder has no material interest in the Proposed Spin-off which is different from that of the other Shareholders, it is not required to abstain from voting at the general meeting of Shareholders for approving the Proposed Spin-off. It should be noted that it is not within our terms of reference to advise the Qualifying Shareholders as to whether or not to participate in the Preferential Offering. In this regard, the Qualifying Shareholders are recommended to consult their own professional advisers and refer to the information contained in the Circular and the Prospectus to be issued in due course. We have not considered the tax consequences of the Proposed Spin-off, including the Preferential Offering, on Shareholders since these are particular to their individual circumstances. Shareholders who are subject to overseas taxation on securities dealing should consider their own tax positions with regard to the Proposed Spin-off and, if in doubt, should consult their own professional advisers.

The Independent Board Committee, comprising Mr. Holger KLUGE, Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin, the Company's independent non-executive Directors, has been established to advise the Shareholders on the terms of the Proposed Spin-off. We have been appointed to advise the Independent Board Committee and the Shareholders in relation thereto.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors (other than the members of the Independent Board Committee) and the management of the Group, which we have assumed to be true, accurate and complete as at the date of the Circular and to remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided and opinions expressed to us, or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Proposed Spin-off, we have considered the following principal factors and reasons:

I. Businesses of the Group and HEC

(a) *Business of the Group*

The Company is listed on the Main Board of the Stock Exchange and is one of the constituent shares of the Hang Seng Index and the Hang Seng Corporate Sustainability Index. The Group commenced commercial operations as a power company in Hong Kong in 1890. Throughout its history of well over a century, the Group has not only provided a reliable supply of electricity in Hong Kong but, since the 1990s, also has invested in international power businesses and has established a presence in overseas markets including the United Kingdom, Australia, the PRC, New Zealand, Thailand, Canada and the Netherlands.

At present, the Group is principally engaged in the following businesses:

(i) Hong Kong: the generation, transmission, distribution and supply of electricity in Hong Kong through HEC (further details are set out in the paragraph headed "Business of HEC" below). If the Proposed Spin-off proceeds, HEC will cease to be a subsidiary of the Company and will instead become an associate of the Company; and

(ii) outside Hong Kong: power businesses in the United Kingdom, Australia, the PRC, New Zealand, Thailand, Canada and the Netherlands. Such businesses include:

   (a) electrical distribution networks in the United Kingdom, Australia and New Zealand;

   (b) gas distribution networks in the United Kingdom;

   (c) interests in thermal generation plants in the PRC, Canada, Thailand and the United Kingdom;

   (d) wind farms in the PRC; and

   (e) energy from waste in the Netherlands.

The Company is now a well-established strategic investor in global power utilities and possesses a portfolio consisting mainly of regulated and contracted power projects. These international businesses are principally held and operated through joint ventures and associates of the Group. Set out below is a summary of the Group's interests in and the principal activities of the Major JVs:

Location	**Name of joint venture (and the Group's % effective interest)**	**Principal activities of the joint venture**
United Kingdom	UK Power Networks Holdings Limited (40%) *(Note 1)*	Owning, operating and managing three regulated distribution networks in the United Kingdom that cover London, South East England and East England; operating certain non-regulated electricity distribution businesses in the United Kingdom, which consist predominantly of commercial contracts to distribute electricity to a number of privately owned sites, including certain major airports and railway systems
	Northern Gas Networks Holdings Limited (41.29%) *(Note 2)*	Owning Northern Gas Networks Limited, which operates the Northern Gas Networks in the north of England
	West Gas Networks Limited and Western Gas Networks Limited (30%) *(Note 3)*	Engaging in the management of gas transportation assets and gas distribution in Wales and the southwest of England
PRC	Guangdong Zhuhai Power Station Company Limited (45%) *(Note 4)*	Owning and operating power plants in Guangdong Province
	Guangdong Zhuhai Jinwan Power Company Limited (45%) *(Note 5)*	Owning and operating power plants in Guangdong Province
New Zealand	Wellington Electricity Distribution Network Holdings Limited (50%) *(Note 6)*	Owning Wellington Electricity Distribution Network Limited, which supplies electricity to the city of Wellington, the capital of New Zealand, and extends to the Porirua and Hutt Valley regions of New Zealand

Notes:

1. The remaining interest in UK Power Networks Holdings Limited is held as to 40% by CKI and its subsidiaries (the "**CKI Group**") and as to 20% in aggregate by Li Ka Shing Foundation Limited ("**LKS Foundation**") and Li Ka Shing (Overseas) Foundation and their respective subsidiaries.

2. The remaining interest in Northern Gas Networks Holdings Limited is held as to 47.06% by the CKI Group and as to 11.65% by an independent third party.

3. The remaining interest in each of West Gas Networks Limited and Western Gas Networks Limited is held as to 30% by the CKI Group, as to 30% by Cheung Kong (Holdings) Limited and its subsidiaries and as to 10% by LKS Foundation and its subsidiaries.

4. The remaining 55% interest in Guangdong Zhuhai Power Station Company Limited is held by 珠海經濟特區廣珠發電有限責任公司 ("**Zhuhai Partner**").

5. The remaining 55% interest in Guangdong Zhuhai Jinwan Power Company Limited is held by the Zhuhai Partner.

6. The remaining 50% interest in Wellington Electricity Distribution Network Holdings Limited is held by the CKI Group.

The Proposed Spin-off will not affect the Group's holdings in the above joint ventures.

(b) ***Business of HEC***

HEC, which commenced commercial operations in 1890, is one of the world's longest established utility companies. It is a vertically integrated power utility and its operations comprise the generation, transmission, distribution and supply of electricity to Hong Kong Island and Lamma Island with an electricity supply reliability rating of above 99.999% in each year since 1997. HEC's sole power generation facility is the Lamma Power Station which, as at 30 September 2013, had an aggregate installed capacity of approximately 3,737 MW. As at 30 September 2013, HEC provided electricity to approximately 568,000 registered customers on Hong Kong Island and Lamma Island.

(c) ***Scheme of Control***

HEC's operations of are subject to the Scheme of Control entered into among HEC, the Company and the Hong Kong Government, which sets out the rights and obligations of the parties and provides a framework for the Hong Kong Government to monitor HEC's financial affairs and operating performance. Under the terms of the Scheme of Control, HEC is entitled to full recovery of its total operating costs from its Gross Tariff Revenue, and a permitted level of earnings based principally on a return on HEC's capital investment in electricity generation, transmission and distribution assets. The current Scheme of Control was entered into on 7 January 2008 for a term of ten years from 1 January 2009 to 31 December 2018, with an option for the Hong Kong Government to extend it for a further term of five years ending on 31 December 2023.

The Scheme of Control regulates the tariffs which HEC can charge its customers by providing for a Permitted Return for each year during the term of the Scheme of Control. The Permitted Return for each year is equal to the aggregate of two components:

(i) 9.99% of the total value of HEC's Average Net Fixed Assets, other than those attributable to its Average Renewables Net Fixed Assets for that year; and

(ii) 11% of the total value of HEC's Average Renewables Net Fixed Assets for that year.

The net return for each year during the term of the Scheme of Control, which is the return accruing to the shareholders of HEC, is computed from the Permitted Return by taking into account certain deductions from, or adjustments to, the Permitted Return as stipulated in the Scheme of Control.

The Scheme of Control requires HEC to maintain the Tariff Stabilisation Fund, the main purpose of which is to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions where appropriate. The Tariff Stabilisation Fund also serves as a buffer for the return of HEC. In each year where the Gross Tariff Revenue exceeds the aggregate of HEC's total operating costs, Permitted Return (after taking into account certain deductions and adjustments) and Scheme of Control taxation charges, the amount of such excess is transferred from HEC's statement of profit or loss to the Tariff Stabilisation Fund. Conversely, where the Gross Tariff Revenue is less than the aggregate of HEC's total operating costs, Permitted Return (after taking into account certain deductions and adjustments) and Scheme of Control taxation charges, the amount of such deficit is transferred from the Tariff Stabilisation Fund to HEC's statement of profit or loss for that year, provided that the amount transferred may not exceed the balance of the Tariff Stabilisation Fund, which may not go into a deficit position. Further details on the Scheme of Control can be found in the letter from the Board in the Circular, the section headed "Ten-Year Scheme of Control Statement" in the annual report of the Company for the year ended 31 December 2012, the website of the Environment Bureau of the Hong Kong Government at www.enb.gov.hk and the website of HEC at www.hkelectric.com.

II. Background of and reasons for the Proposed Spin-off

(a) *Background of the Proposed Spin-off*

The business of HEC has been stable in recent years. Since the current Scheme of Control became effective from 1 January 2009, the annual sales of electricity in Hong Kong and the net return of HEC were within narrow ranges from approximately HK$10,140 million to approximately HK$10,364 million and approximately HK$4,548 million to approximately HK$4,633 million respectively during the four years ended 31 December 2012.

Since the 1990s, the Group has been actively investing in power businesses globally. Macro-economic weakness in recent years has provided the Group with the opportunity to expand its power asset portfolio and diversify its earnings base outside Hong Kong. Earnings from the Group's power businesses outside Hong Kong have grown from approximately HK$700 million in 2007 to approximately HK$5.1 billion in 2012, contributing over 50% of the Company's attributable profit in the financial year ended 31 December 2012. The Company is now well-established as a leading strategic investor in power utilities globally, with cumulative cash invested by the Group of approximately HK$31.9 billion as at 31 December 2012 outside Hong Kong in a portfolio consisting mainly of regulated and contracted power projects spanning four continents.

Against the above backdrop, the Proposed Spin-off will provide a clear delineation of the Group's local and international businesses and promote an alignment with an appropriate investor base for each of them.

Given the stable cash generating capability of HEC and the objective of payment of all distributable income from HEC's business, the listing of HEC's business in the form of a fixed single investment trust constituted by the Trust Deed is in our view practical and appropriate. The objectives will be to (i) focus principally on the payment of distributions to the holders of Share Stapled Units with a clearly expressed intention as to the distribution policies stated in the Trust Deed and the articles of association of HKEIL; and (ii) provide the holders of Share Stapled Units with stable distributions as well as the potential for sustainable long-term growth of such distributions.

(b) ***Reasons for and benefits of the Proposed Spin-off***

As mentioned above, the Group, through HEC, operates in the Hong Kong power market which provides stable earnings and, through various joint ventures, invests in international power businesses with main focus on energy-related regulated assets which have provided higher growth in earnings in recent years. The Board is of the view that the Proposed Spin-off will unlock value for the Shareholders by better identifying and establishing the fair value of the HKEIL Group's business and will crystallise value for the Company's international businesses through more visibility and additional disclosure of the financial information of the Major JVs.

The Company is expected to receive substantial cash proceeds of at least approximately HK$52.6 billion in connection with the Proposed Spin-off, comprising at least approximately HK$31.7 billion from the disposal of the Company's interest in the Disposal Group, and approximately HK$20.9 billion from the repayment of the loans owing by HEC to the Company, based on the financial position of the Disposal Group as at 30 June 2013. The Company will also receive a distribution from HEC of all profit attributable to the equity shareholders up to Completion, which amounted to approximately HK$1.8 billion as at 30 June 2013. This will enable the Company to continue to pursue new acquisitions in the global power industry, while maintaining a strong financial profile.

In addition, the Board believes that the Proposed Spin-off will allow the Company's management to focus its time and resources more effectively on identifying new acquisition and investment opportunities to further develop its power portfolio outside Hong Kong.

The Board is also of the view that the Proposed Spin-off will enable the Company's remaining business to be valued on a stand-alone basis, with more visibility of its growth profile and asset quality. This will help the Company attract investors who are specifically seeking to invest in a global player with direct exposure to a balanced portfolio of power businesses with predictable income streams and future acquisition growth.

Given the above, the Directors (other than the members of the Independent Board Committee) have already expressed the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. **Structure of the Proposed Spin-off**

(a) ***Reorganisation***

In connection with the Proposed Spin-off, the Reorganisation is expected to be implemented, such that upon completion of the Reorganisation, (i) the Hong Kong Electricity Business will be held by the HKEIL Group, and (ii) Quickview, a wholly-owned subsidiary of the Company, will be interested in the entire issued Share Stapled Units before the Global Offering becomes unconditional.

The Disposal

In connection with the Proposed Spin-off, the Company, Treasure Business (an indirect wholly-owned subsidiary of HKEIL), HKEIL and the Trustee-Manager will enter into the Sale and Purchase Agreement, pursuant to which the Company will agree to sell to the HKEIL Group its entire shareholding interest in HEC, which directly owns the Hong Kong Electricity Business.

The Disposal Consideration will reflect the value of HEC as implied by the final Offer Price under the Global Offering, and will be an amount equal to:

the sum of:

(i) the net proceeds from the Global Offering after deducting the underwriting commissions and any incentive fees;

(ii) the value (at the Offer Price) of the Consideration Share Stapled Units to be issued to Quickview;

(iii) the gross amount of the HKEIL Loan Facility to be drawn down of approximately HK$8,700 million;

less:

(iv) relevant transaction costs agreed relating to the HKEIL Loan Facility and the Global Offering of approximately HK$187.4 million; and

(v) the amount set aside and retained by HKEIL as working capital of approximately HK$10.0 million.

Based on the Minimum Trust Group Market Capitalisation of HK$48.0 billion, the minimum Disposal Consideration is expected to be approximately HK$55.7 billion. The final amount of the Disposal Consideration will be determined after the Offer Price is determined. As stated in the above formula, the cash portion of the Disposal Consideration is expected to be financed by (i) all the proceeds from the Global Offering, to be settled on the Listing Date, and (ii) the HKEIL Loan Facility proposed to be taken out by HKEIL, to be settled shortly after the Listing Date. In other words, HKEIL is expected to leverage itself to assist in the purchase of the Disposal Group from the Company.

Completion of the Disposal will be conditional upon:

(i) the Listing Committee granting approval for the listing of, and permission to deal in, the Share Stapled Units in issue and to be issued pursuant to the Reorganisation and the Global Offering on the Main Board of the Stock Exchange and such approval not having been withdrawn immediately prior to 8:00 a.m. on the Listing Date;

(ii) the Offer Price having been agreed among the Joint Global Coordinators, the Trustee-Manager and HKEIL;

(iii) the international underwriting agreement in relation to the International Offering having been executed and delivered on or about the date on which the Offer Price will be determined;

(iv) the obligations of the respective underwriters under the underwriting agreements in relation to the Hong Kong Offering and the International Offering not having been terminated immediately prior to 8:00 a.m. on the Listing Date; and

(v) there being no material breach of representations, warranties and/or undertakings set out in the Sale and Purchase Agreement or any other terms of the Sale and Purchase Agreement on the part of the Company.

Subject to the satisfaction of the conditions referred to above, Completion will take place immediately prior to 8:00 a.m. on the Listing Date.

Settlement of loan to HEC and distribution of attributable profit

Shortly after completion of the Disposal, all the loans (including the loan capital) owing by HEC to the Remaining Group, to the extent not yet repaid, will be repaid to the Company. All the profit attributable to the equity shareholders of HEC accrued up to Completion will also be distributed or paid to the Company. Taking into account the above repayment and distribution of attributable profit, the Company is expected to receive approximately HK$22.7 billion based on the balances as at 30 June 2013, or approximately HK$27.4 billion based on the balances as at the Latest Practicable Date.

(b) ***Structure of the Global Offering and the Share Stapled Units***

The Company intends to effect the Proposed Spin-off by way of the separate listing of the Share Stapled Units on the Main Board of the Stock Exchange pursuant to the Global Offering. The Global Offering is at present expected to comprise (i) the Hong Kong Public Offering, and (ii) the International Offering, which will include the Preferential Offering to Qualifying Shareholders.

Each Share Stapled Unit, to be jointly issued by HK Electric Investments and HKEIL, comprises a combination of the following:

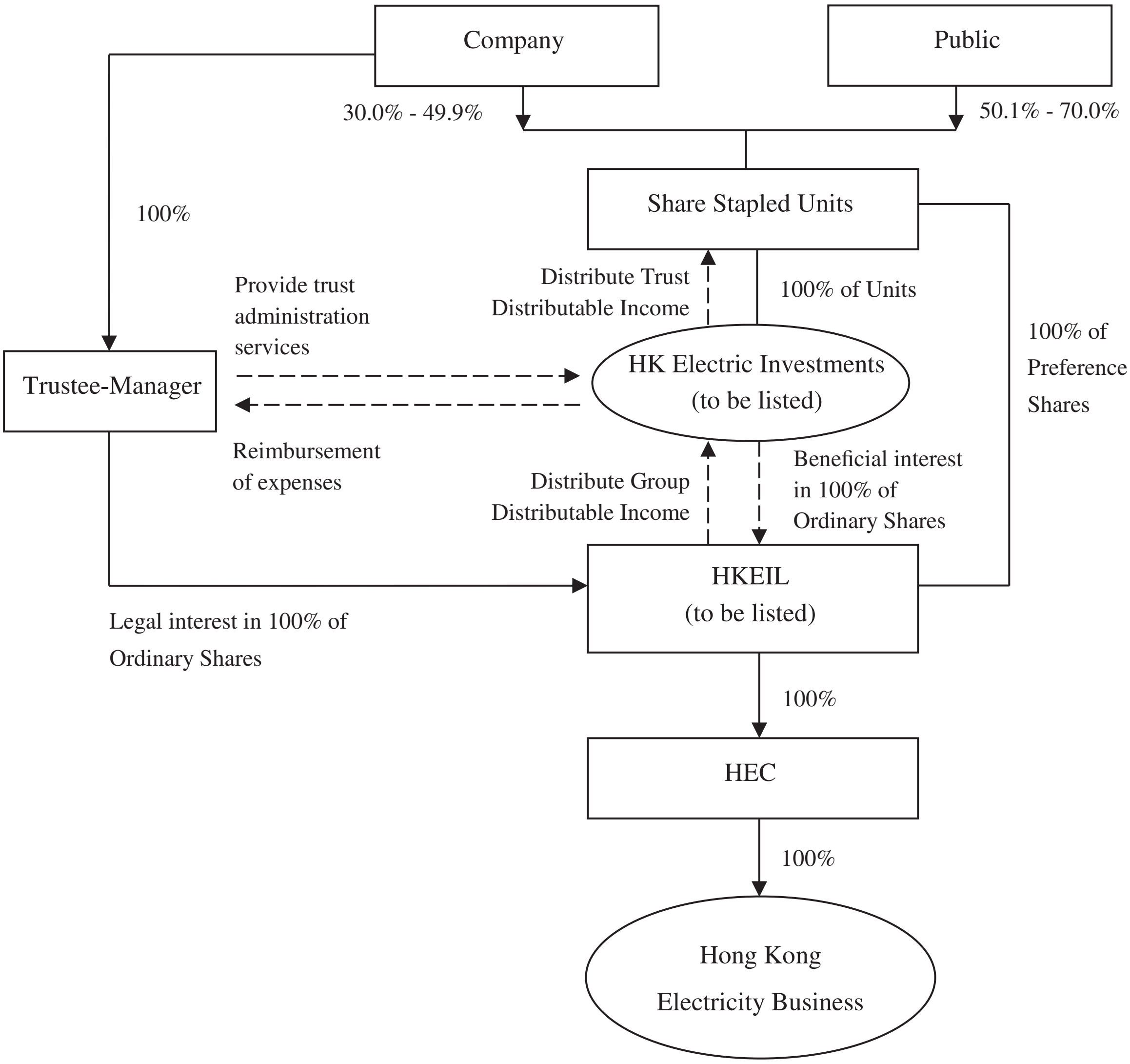
(i) a Unit;

(ii) a beneficial interest in an Ordinary Share in HKEIL, which is linked to the Unit and to be legally owned by the Trustee-Manager in its capacity as trustee-manager of HK Electric Investments; and

(iii) a Preference Share in HKEIL, which is stapled to the Unit.

HK Electric Investments is a trust to be constituted by the Trust Deed, which is proposed to be entered into between the Trustee-Manager and HKEIL. As a fixed single investment trust, HK Electric Investments will only invest in securities and other interests in HKEIL, and will confer on the holders of its units a beneficial interest in the Ordinary Shares in HKEIL. The Trustee-Manager will declare, under the Trust Deed, that it holds the Ordinary Shares on trust for the registered holders of the Units. The Ordinary Shares and the Preference Shares will carry the same voting rights at general meetings of the HKEIL's shareholders. However, only the Ordinary Shares will have rights to dividends and distributions from HKEIL. The rationale for including the Preference Shares as components of the Share Stapled Units is to ensure that the Share Stapled Units (and, thereby, HK Electric Investments, including the Trustee-Manager, and HKEIL) are subject to the SFO, including the provisions on the protection of investors.

The structure of the Share Stapled Units, immediately following the completion of the Proposed Spin-off, is set out below as follows:



Notes:

1. With the exception of the beneficial interest in 100% of the Ordinary Shares of HKEIL held by the holders of Share Stapled Units, all dotted lines indicate a proposed contractual relationship between the entities or distribution or funds flow and continuous lines indicate a proposed interest in shares, units, or ownership in the Hong Kong Electricity Business.

2. As HK Electric Investments is not a separate legal entity, all of the trust property, being the assets of HK Electric Investments, will be held by the Trustee-Manager for the benefit of the Registered Holders of Units.

3. The Company's interest in the Share Stapled Units will be held through Quickview, its wholly-owned subsidiary. The Company's interest in the Trustee-Manager is held through Sure Grade Limited, its wholly-owned subsidiary.

4. HKEIL's interest in HEC will be held through Century Rank and Treasure Business, its wholly-owned subsidiaries.

As shown in the above chart, HKEIL will be indirectly interested in 100% of the Hong Kong Electricity Business through HEC following completion of the Proposed Spin-off. The Company is expected to retain a 30.0% to 49.9% interest in the Share Stapled Units in issue, while public shareholders will hold an approximately 50.1% to 70.0% interest in the Share Stapled Units in issue, upon completion of the Proposed Spin-off. HEC will therefore cease to be a subsidiary of the Company, and the Trust Group, including HKEIL and HEC, is expected to be accounted for as an associate of the Company.

(c) ***Minimum market capitalisation of the Trust Group***

Following completion of the Global Offering, the Trust Group is expected to have a Trust Group Market Capitalisation of no less than HK$48.0 billion. Should the Minimum Trust Group Market Capitalisation not be achieved, the Proposed Spin-off will not proceed and Shareholders' approval at another general meeting will be required to approve any revised spin-off proposal. As stated in the "Letter from the Board" as contained in the Circular, considering the prevailing market conditions, the Board currently expects that, if the Proposed Spin-off proceeds, the Trust Group Market Capitalisation will be in the range of HK$48.0 billion to approximately HK$63.4 billion.

(d) ***Distribution of income***

It is proposed that future distribution of income to Holders of Share Stapled Units, namely the Trust Distributable Income, will be based on 100% of the audited consolidated profit attributable to the holders of Share Stapled Units, subject to the certain adjustments (which include eliminations or reversals of certain items in the consolidated statement of profit or loss of the HKEIL Group) including, among others:

(i) those required under the Scheme of Control, such as adjustments under the Fuel Clause Recovery Account, Tariff Stabilisation Fund and the Rate Reduction Reserve;

(ii) actual amount of capital expenditures incurred and expected future capital expenditures;

(iii) actual and future repayment of debt and payment of net finance costs;

(iv) certain non-cash items in the consolidated statement of profit or loss of the HKEIL Group, such as unrealised revaluation gains/losses, impairment of goodwill, depreciation and amortisation;

(v) costs of any public offering of Share Stapled Units expensed through the consolidated statement of profit or loss but funded by proceeds from issuance;

(vi) net finance income/costs and tax charges; and

(vii) all amounts permitted to be deducted or paid under the Trust Deed (such as operating expenses of HK Electric Investments).

For details of the above adjustments, please refer to the section headed "Distributions" in the "Letter from the Board" as contained in the Circular.

The clearly expressed distribution policy of HK Electric Investments under the trust structure enables the HKEIL Group to focus principally on distributions and to differentiate itself from other listed issuers. Following completion of the Proposed Spin-off, the Group will be interested in 30.0% to 49.9% of the Shares Stapled Units in issue, and will accordingly be entitled to share such percentage of future distribution of the Trust Distributable Income.

(e) ***Other key features of the Share Stapled Units***

Apart from its specifically designed holding structure and the distribution policy as mentioned above, set out below are the other key features of the Share Stapled Units:

The Unit, beneficial interest of the Ordinary Share and the Preference Share being stapled

Under the current structure, the Units, the Ordinary Shares and the Preference Shares will be listed on the Stock Exchange as Share Stapled Units following completion of the Proposed Spin-off. Trading on the Stock Exchange will only take place in the form of Share Stapled Units, and there will only be a single price quotation on the Stock Exchange for a Share Stapled Unit. The number of Ordinary Shares, Preference Shares and Units of HK Electric Investments in issue must be the same at all times.

The Trustee-Manager

The Trustee-Manager, an indirectly wholly-owned subsidiary of the Company, will have legal ownership of the assets of HK Electric Investments, and will have a specific and limited role, which is to administer HK Electric Investments. The Trustee-Manager will not be actively involved in the management of the Hong Kong Electricity Business, which will be owned and managed by the HKEIL Group upon completion of the Proposed Spin-off.

The Trust-Manager will not receive any fee for administering HK Electric Investments, except for the deduction of costs and expenses from the trust property of HK Electric Investments.

Listing Rules, SFO and the Takeovers Code

As HK Electric Investments and HKEIL will both be listed on the Stock Exchange, both of them, including the Trustee-Manager, will be subject to the provisions of the Listing Rules, the SFO (including provisions on protection of investors), and the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Repurchases of Share Stapled Units will not be permitted unless and until expressly permitted by relevant codes and guidelines.

Unbundling of the Share Stapled Units

Investors can only deal in the Share Stapled Units on the Stock Exchange and are not permitted to deal in the individual components of the Share Stapled Units, except for the circumstances where the Exchange Right is exercised. The Exchange Right is exercisable by passing an Extraordinary Resolution of Registered Holders of Units, following which and subject to the Stock Exchange's prior approval, the Ordinary Shares will be separately traded on the Stock Exchange, and the Units and the Preference Shares would have been cancelled.

IV. **Evaluation of the Disposal Consideration**

(a) ***Approach to evaluation***

Upon completion of the Proposed Spin-off, the HKEIL Group will be engaged in the Hong Kong Electricity Business, which has the characteristic of stable cash flow generation and dividend distribution. As such, we consider it most appropriate to analyse the Disposal Consideration using a dividend yield approach. This matches the intention of the Trustee-Manager to distribute 100% of the Trust Distributable Income to the holders of the Share Stapled Units. In view of the fact that HKEIL is expected to leverage itself to purchase the Disposal Group from the Company, we also consider it reasonable, as a secondary benchmark, to have regard to the enterprise value ("**EV**") to earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") ratio, a valuation approach which analyses the value of the business of a company as funded by both its equity and net debt.

We have considered alternative approaches as a cross-check, including price to earnings and price to book ratios. However, the intended revaluation of fixed assets upon completion of the Disposal and additional external borrowings by the HKEIL Group in place of the present interest-free loans from the Company to HEC will result in a significant increase in depreciation charge and interest expense which will significantly affect earnings. Further, a group operating in a utility industry is not typically valued by reference to net assets. Consequently, we have not given significant weight to the alternative approaches.

(b) ***Dividend yield***

In arriving at the dividend yield as implied by the Disposal Consideration (the "**Implied Yield**"), we consider the use of an adjusted annualised expected Trust Distributable Income to the holders of Share Stapled Units in 2014 (the "**Annualised 2014 Expected Distribution**") to be appropriate in analysing the stabilised distribution, as the past profitability of HEC was affected by the interest-free financing from the Company, which produced an artificially high level of profitability. Due to the characteristic of stable and predictable operating cash flow generation from the Hong Kong Electricity Business, we have adopted the Annualised 2014 Expected Distribution to arrive at the Implied Yield. Comparison with the yields of other similar entities is based on historical dividends.

As the Group will effectively dispose between 50.1% to 70.0% of HKEIL, we have arrived at the Implied Yield based on the future distribution attributable to such proportion of the Disposal Group and the cash portion of the Disposal Consideration, calculated as follows:

	The Group disposing:	
	50.1% of HKEIL	**70.0% of HKEIL**
	HK$ million	*HK$ million*
Annualised expected distribution to holders of the Share Stapled Units for the year of 2014	not less than 3,485	not less than 3,485
Add: estimated additional interest expense in relation to the HKEIL Loan Facility (net of tax) *(Note 1)*	181	181
Annualised 2014 Expected Distribution	3,666	3,666
— attributable to the Disposal (50.1% or 70.0%)	1,837	2,566
Cash portion of the Disposal Consideration to be received by the Group *(Note 2)*	31,733	41,046
Implied Yield	**5.8%**	**6.3%**

Notes:

1. As mentioned in the section above headed "Structure of the Proposed Spin-off", HKEIL is expected to increase its leverage by drawing down the HKEIL Loan Facility, to assist in the purchase of the Disposal Group from the Company, which will in turn increase future interest expense. As such additional gearing, from the Company's perspective, is not relevant to the Disposal Group's underlying earnings and distribution capability, we have removed the effect of such additional interest expense in calculating the Annualised 2014 Expected Distribution.

   The estimated additional interest expense is calculated with reference to the gross amount to be drawn down under the HKEIL Loan Facility of HK$8,700 million, and the weighted average borrowing cost of the Disposal Group's external borrowings of approximately 2.49% as at 30 September 2013.

2. The amounts of cash portion of the Disposal Consideration to be received by the Group, after deduction of stamp duty and other expenses, are extracted from the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular.

Under the scenarios of the Group disposing of 50.1% and 70.0% of HKEIL, the cash portions of the Disposal Consideration to be received by the Group are approximately HK$31.7 billion to HK$41.0 billion respectively, which represent Implied Yields of approximately 5.8% to 6.3% respectively.

We have identified 8 entities listed on the Stock Exchange (the "**Yield Comparable Entities**") which are either:

(i) real estate investment trusts ("**REIT(s)**") with underlying property interests located principally in Hong Kong; or

(ii) stapled securities which require distribution of 100% of net income (subject to adjustments).

Under the applicable requirements, Hong Kong listed REITs have to distribute at least 90% of their audited net incomes, subject to adjustments. This is similar to the Trustee-Manager's intention to distribute 100% of the Trust Distributable Income. We therefore consider REITs, which are in general valued on a dividend yield approach, as comparable entities. The two stapled securities listed in Hong Kong, HKT Trust and HKT Limited ("**HKT**"), and Langham Hospitality Investments and Langham Hospitality Investments Limited ("**Langham**"), are also considered comparable due to their focus on distribution. In our view, the Yield Comparable Entities set out below represent a comprehensive and representative list of entities that we were able to identify from the Stock Exchange's website and satisfied the above selection criteria. The table below compares the Implied Yield with that of the Yield Comparable Entities:

Yield Comparable Entities	**Share price as at the Latest Practicable Date**	**Dividend per share attributable to the latest financial year**	**Dividend yield**
	HK$	*HK$*	
REITs			
Sunlight Real Estate Investment Trust (stock code: 435)	2.99	0.18	6.0%
Fortune Real Estate Investment Trust (stock code:778)	6.11	0.32	5.2%
Prosperity Real Estate Investment Trust (stock code: 808)	2.25	0.14	6.2%
The Link Real Estate Investment Trust (stock code: 823)	37.60	1.46	3.9%
Regal Real Estate Investment Trust (stock code: 1881)	2.20	0.14	6.4%
Champion Real Estate Investment Trust (stock code: 2778)	3.44	0.21	6.1%
Other stapled securities			
Langham (stock code: 1270)	3.79	0.29 *(Note 1)*	7.7%
HKT (stock code: 6823)	6.81	0.42	6.2%
Average			6.0%
Median			6.2%
Implied Yield			**5.8% to 6.3%**

Source: Bloomberg, annual reports and announcements of the respective Yield Comparable Entities.

Note:

1. The amount represents the full-year projection of the expected distribution per share stapled unit for the period from the listing date (i.e. 30 May 2013) of approximately HK$0.168 per share stapled unit. It was stated in the prospectus of Langham that its controlling shareholder has agreed to waive its entitlement to receive distributions payable in respect of certain percentage of its holdings. As such distribution waiver is not perpetual, we have not taken into account the effect such waiver in arriving at the above expected distribution.

As illustrated by the above table, the dividend yields of the Yield Comparable Entities range from approximately 3.9% to 7.7%, with the average and the median of approximately 6.0% and 6.2% respectively. The Implied Yield of approximately 5.8% to 6.3% is close to the average and the median yields of the Yield Comparable Entities. Shareholders should also note:

o The Group will retain an interest of between 49.9% and 30% in HKEIL.

o In addition to the Disposal Consideration, the Remaining Group will receive repayment of shareholder loans of approximately HK$20.9 billion (based on the balances as at 30 June 2013), on which no interest or other yield is currently being paid by HEC. Such additional cash receipts by the Remaining Group will provide further financial flexibility for any future investment opportunities available to the Remaining Group.

o The Minimum Trust Group Market Capitalisation is a floor which may be exceeded depending, inter alia, on market conditions. On the other hand, the estimated distribution in 2014 is also a minimum, subject to the then operating performance of the Hong Kong Electricity Business.

On this basis, we consider the yield at which the interests in the Disposal Group are being sold is reasonable from the Shareholders' point of view.

(c) ***EV/EBITDA***

Based on the Minimum Trust Group Market Capitalisation of HK$48.0 billion and the expected debt of the HKEIL Group upon completion of the Proposed Spin-off (including the debt under the HKEIL Loan Facility as mentioned above) of approximately HK$48,329 million, the EV and EBITDA of the HKEIL Group are calculated as follows:

	Assuming expected debt of the HKEIL Group of HK$48,329 million
	HK$ million
EV	
Minimum Trust Group Market Capitalisation	48,000
Expected debt of the HKEIL Group upon completion of the Proposed Spin-off	48,329
EV of the HKEIL Group	96,329
2012 EBITDA *(Note)*	
Profit before tax	5,362
Finance costs	265
Depreciation and amortisation	1,920
2012 EBITDA of the HKEIL Group	7,547
EV/EBITDA ratio of the HKEIL Group	**12.8 times**

Note: The above information relating to calculation of EBITDA is extracted from the financial information of the Disposal Group as contained in Appendix II of the Circular.

Given the expected debt level, the Minimum Trust Group Market Capitalisation of HK$48.0 billion represents an EV/EBITDA ratio of approximately 12.8 times, calculated with reference to the 2012 EBITDA of approximately HK$7,547 million. We have identified three utility entities listed on the Stock Exchange and are engaged in utility businesses, with at least 25% of the revenue in the latest financial year derived from Hong Kong (the "**EV Comparable Entities**"), for the purpose of comparing their EV/EBITDA ratio with that of the HKEIL Group. In our view, the EV Comparable Entities set out below represent a comprehensive and representative list of entities that we were able to identify from the Stock Exchange's website and satisfied the above selection criteria:

EV Comparable Entities	**EV**	**EBITDA**	**EV/EBITDA**
	HK$ million	*HK$ million*	*times*
CLP (stock code: 2)	236,688	23,171	10.2
HK China Gas (stock code: 3)	196,565	12,230	16.1
The Company (stock code: 6)	146,408	13,059	11.2
Average			12.5
Median			11.2
The HKEIL Group			**12.8**

Source: Bloomberg and annual reports of the respective EV Comparable Entities.

As illustrated by the above table, the EV/EBITDA ratios of the EV Comparable Entities range from approximately 10.2 times to 16.1 times, with the average and the median of approximately 12.5 times and 11.2 times respectively. The EV/EBITDA ratio of the HKEIL Group of approximately 12.8 times is higher than the average and median EV/EBITDA ratios of the EV Comparable Entities. The EV/EBITDA ratio of the HKEIL Group is also higher than the EV/EBITDA ratio of the Company of approximately 11.2 times.

V. **Assured Entitlements**

According to Practice Note 15 of the Listing Rules, in the case of a separate listing, assured entitlements to shares in the spun-off entity are expected to be provided to existing shareholders of the parent company. In this case, it is expected that not less than 10.0% of the Share Stapled Units to be initially available under the Global Offering will be offered to the Qualifying Shareholders as an Assured Entitlement.

According to the management of the Group, no favourable treatment will be given to directors and other connected persons of HK Electric Investments and of the HKEIL, and/or their associates in the allocation of Share Stapled Units under the Preferential Offering in the case that they are Qualifying Shareholders.

Qualifying Shareholders may apply for a number of Reserved Share Stapled Units which is greater than, less than, or equal to their assured entitlement or may apply only for excess Reserved Share Stapled Units under the Preferential Offering. Excess applications for Reserved Share Stapled Units under the Preferential Offering will be satisfied by those Reserved Share Stapled Units not taken up by other Qualifying Shareholders. No preference will be given to any excess applications made to top up odd lot holdings to whole lot holdings of Share Stapled Units. The Joint Global Coordinators will, at their discretion, allocate any remaining assured entitlement not taken up by the Qualifying Shareholders to the International Offering. Qualifying Shareholders will, in addition to applying for the Reserved Share Stapled Units, also be entitled to subscribe for the Offer Share Stapled Units under the Hong Kong Public Offering.

As a comparison, we have reviewed the following spin-off exercises (the "**Spin-off Exercises**") announced since 1 October 2008 (approximately 5 years before the Proposed Spin-off was first announced) and approved by the then independent shareholders (if required) of companies listed on the Main Board of the Stock Exchange involving offerings of over HK$1,000 million, which we consider large enough to provide a valid comparison with the Proposed Spin-off. In our view, the Spin-off Exercises set out below represent a comprehensive and representative list of spin-off exercises that we were able to identify from the Stock Exchange's website and satisfied the above selection criteria:

Date of initial announcement	**Parent company**	**Separate listed entity**	**Approximate size of assured allotments based on final offer price**	**Approximate assured allotments as % of the offering (excluding the exercise of any over-allotment option)**	**Approximate size of the offering (excluding the exercise of any over-allotment option)**	**Matching services or preference given to excess applications to top up odd lot holdings disclosed**
			(HK$ million)		*(HK$ million)*	
8 February 2013	Hopewell Holdings Limited (stock code: 54)	Hopewell Hong Kong Properties Limited (stock code: 288)	579	10.3%	5,627	No
24 January 2013	Great Eagle Holdings Limited (stock code: 41)	Langham Hospitality Investments and Langham Hospitality Investments Limited (stock code: 1270)	213	5.0%	4,260	No

Date of initial announcement	Parent company	Separate listed entity	Approximate size of assured allotments based on final offer price	Approximate assured allotments as % of the offering (excluding the exercise of any over-allotment option)	Approximate size of the offering (excluding the exercise of any over-allotment option)	Matching services or preference given to excess applications to top up odd lot holdings disclosed
			(HK$ million)		*(HK$ million)*	
21 March 2011	PCCW Limited (stock code: 8)	HKT Trust and HKT Limited (stock code: 6823)	941	10.1% *(Note 2)*	9,302	No
31 January 2011	New World Development Company Limited (stock code: 17)	Newton Resources Limited (stock code: 1231)	70	4.0%	1,750	No
30 June 2010	Far East Consortium International Limited (stock code: 35)	Kosmopolito Hotels International Limited (now known as: Dorsett Hospitality International Limited) (stock code: 2266)	63	5.3%	1,188	No
Average				6.9%		
Median				5.3%		
	The Company	**HK Electric Investment and HKEIL**		**10.0%**		

Source: Relevant announcements, circulars and/or prospectuses of the respective entities.

Notes:

1. The following are the criteria adopted for the purpose of identifying the above Spin-off Exercises which we consider provide a meaningful comparison with the assured entitlement offered under the Proposed Spin-off:

   — the Spin-off Exercises involve an offering of over HK$1,000 million, as disclosed in their respective published prospectuses;

   — the listing of the spun off entities under the Spin-off Exercises has been approved by the then independent shareholders (if required) of the parent companies which were listed on the Stock Exchange; and

— preferential offerings were provided in each of the Spin-off Exercises to satisfy the requirement of providing an assured entitlement.

2. Up to an additional approximately 20% of the share stapled units initially available under the offering was made available to shareholders to satisfy applications for excess share stapled units under the preferential offering. In addition, following the completion of the offering, an aggregate of approximately 5% of the share stapled units in issue following the completion of the offering were distributed in specie to shareholders.

As illustrated in the above table, the assured entitlements offered to shareholders under the Spin-off Exercises as a percentage of the respective number of shares offered under the initial public offering (taking no account of the exercise of any over-allotment option) range from approximately 4.0% to 10.3%, with an average and median of approximately 6.9% and 5.3% respectively. Not less than 10% of the total number of Offer Share Stapled Units initially available under the Global Offering will be reserved for the Preferential Offering, which is higher than both the average and median percentages of the Spin-off Exercises. On this basis, we consider the size of the Preferential Offering to be in line with or somewhat more favourable than recent practice.

Qualifying Shareholders should note that their Assured Entitlement to Reserved Share Stapled Units may not represent a full board lot of Share Stapled Units. The Reserved Share Stapled Units allocated to the Qualifying Shareholders will be rounded down to the closest whole number if required. The prices at which odd lots of Share Stapled Units are dealt in may be below the prevailing market price for full board lots. No odd-lot matching services will be provided, and no preference will be given to any excess applications made to top up odd-lot holdings to whole-lot holdings of the Share Stapled Units. In this respect, we noticed from the above Spin-off Exercises that such matching services or preference given to top up odd-lot holdings to whole-lot holdings are not common. The Assured Entitlement of Qualifying Shareholders to Reserved Share Stapled Units will not be transferable or tradable on the Stock Exchange.

Based on the expected timetable, the register of members of the Company will be closed on Friday, 10 January 2014 for the purpose of determining the Assured Entitlement, and will re-open on Monday, 13 January 2014. In order to qualify for the Assured Entitlement, all transfer forms accompanied by the relevant share certificates and documents must be lodged with the registrar of the Company no later than 4.30 p.m. on Thursday, 9 January 2014. The Shares will be traded on an ex-entitlement basis as from Wednesday, 8 January 2014.

Shareholders should refer to the section headed "Proposed Preferential Offering" in the "Letter from the Board" contained in the Circular for further details of the Preferential Offering.

VI. Corporate governance

(a) *Non-competition arrangements between the Company and HKEIL*

As detailed in the "Letter from the Board" contained in the Circular, it is intended that with effect from the Listing Date, the Company will enter into the Non-Competition Undertaking, pursuant to which the Company will undertake not to compete with the HKEIL Group in the business of generation, transmission, distribution and supply of electricity in Hong Kong until the earlier of (1) the date on which the Company ceases to be interested in at least 30% of the Share Stapled Units in issue and (2) the date on which the Share Stapled Units cease to be listed on the Stock Exchange. As the only business that the HKEIL Group will engage in is the Hong Kong Electricity Business, we consider it reasonable for the Company to undertake not to compete with the HKEIL Group in the Hong Kong Electricity Business.

(b) ***Future arrangement between CKI and the Company***

As at the Latest Practicable Date, CKI was interested in approximately 38.87% of the share capital of the Company. In the past, the Company has made certain overseas investments in conjunction with CKI. In order to enhance the delineation between the future business focus of the Company on power projects and that of CKI on non-power projects, upon completion of the Proposed Spin-off, CKI will undertake that if it is offered an opportunity to invest in any power projects (including gas projects), it will refer such investment opportunity to the Company for evaluation, and CKI may only invest in such projects if the Company declines to invest or elects to invite CKI to participate as a co-investor (in each case, with endorsement by the Company's independent non-executive directors ("**INEDs**") or a committee of them). In particular, the Company will not co-invest with CKI in a power project where the interest available for investment or acquisition is of an enterprise value not exceedings HK$4 billion.

The above undertaking from CKI will terminate if CKI ceases to own at least a 30% shareholding interest in the Company, or the Company's shares cease to be listed on the Stock Exchange. We consider this arrangement favourable to the Shareholders, as this new undertaking would require CKI to refer investment opportunities in power projects to the Company, thus facilitating the Company's investment activities in the future.

(c) ***Financial independence***

The Group has been financing the operation of the Hong Kong Electricity Business, currently conducted through HEC, partially by way of inter-company loans including injection of loan capital. As at 30 June 2013, inter-company loans (including loan capital) owed by HEC to the Group amounted to a total approximately HK$20.9 billion, which is expected to be paid to the Company shortly after completion of the Proposed Spin-off principally by HEC taking out of a new external loan facility. All profit attributable to the equity shareholders of HEC accrued up to Completion will also be distributed or paid to the Company. As at the Latest Practicable Date, there was no guarantee outstanding given by the Group in respect of any external loans and facilities of HEC.

As shown in the financial information of the Disposal Group set out in Appendix II of the Circular, the Disposal Group has been maintaining a minimal level of cash and bank balances (excluding bank overdraft), amounting to approximately HK$7.6 million and HK$7.8 million as at 31 December 2012 and 30 September 2013 respectively. This is due to the remittance of the cash of the Disposal Group to its holding company for centralised fund management. Upon completion of the Proposed Spin-off, the HKEIL Group (which will hold the entire interest in the Disposal Group) will handle its cash management independently.

(d) ***Independence of directors and management***

As the Group will only be interested in between 30.0% and 49.9% of the HKEIL Group after completion of the Proposed Spin-off, the HKEIL Group will operate independently under a separate management team. Following completion of the Proposed Spin-off, it is proposed that the board of directors of HKEIL (the composition of which will be identical to the board of directors of the Trustee-Manager) will have 12 directors, comprising six executive directors, two non-executive directors and four independent non-executive directors upon Listing. Three of the six executive directors of HKEIL's board, namely Mr. FOK Kin Ning, Canning, Mr. WAN Chi Tin and Mr. CHAN Loi Shun, will remain as directors of the Company upon completion of the Proposed Spin-off. Given that the Trust Group is expected to be an associate of the Group following completion of the Proposed Spin-off, we consider that the board composition of the HKEIL Group and the degree of overlap between the two boards is appropriate in that it reflects the interests of the Company and yet allows the HKEIL Group to maintain a management team independent of the Company.

In terms of the senior management team of the HKEIL Group, 9 out of the 10 proposed members of senior management will be dedicated to the day-to-day management of the business of the HKEIL Group and will not have any management roles in the Group.

(e) ***Future compliance by and disclosure of financial information of joint ventures of the Company***

The Remaining Businesses of the Remaining Group, principally its overseas power businesses, are held through joint ventures and associates. The Company has agreed that after completion of the Proposed Spin-off, the Major JVs and all other material joint ventures will be subject to the continuing obligations under the Listing Rules governing subsidiaries, including those in Chapters 13, 14, 14A, 15 and 17 of the Listing Rules and PN15, subject to modifications, unless any such joint venture ceases to be a joint venture of the Company under the applicable accounting standards.

After the Proposed Spin-Off, the Company will also disclose key financial information for each joint venture in accordance with the applicable accounting standards, unless it ceases to be a joint venture of the Company under the applicable accounting standard.

We consider such additional requirements provide additional shareholders' protection in that the joint ventures will be subject to the relevant requirements under the Listing Rules (with modifications) as if they were subsidiaries of the Company.

(f) ***Future transactions between the Remaining Group and the HKEIL Group***

After completion of the Proposed Spin-off, there will be continuing transactions between the Remaining Group and the HKEIL Group, including sharing of administrative and support services, and on-sale of natural gas purchased from independent third parties by the Company to HEC. These transactions will constitute continuing connected transactions of HKEIL and HK Electric Investments under Chapter 14A of the Listing Rules, and will be conducted on normal commercial terms and in compliance with the applicable requirements of the Listing Rules.

VII. **Effect of the Proposed Spin-off on the Group**

As stated in the "Letter from the Board" contained in the Circular, the exact size of the Global Offering, the Company's percentage interest in the Share Stapled Units to be issued immediately upon Completion and other details of the Global Offering are yet to be finalised. The analysis of the financial effects of the Proposed Spin-off illustrated below is based on the Minimum Trust Group Market Capitalisation of HK$48.0 billion.

(a) ***Effect on net asset value***

It is intended that immediately following the completion of the Proposed Spin-off, the Company will have an interest in not more than 49.9% and not less than 30% of the Share Stapled Units in issue. Accordingly, HEC will cease to be a subsidiary of the Company, and the Trust Group will be classified by the Company as an associate and accounted for in the Group's financial statements using the equity method of accounting.

Based on the pro forma consolidated balance sheet of the Remaining Group as at 30 June 2013 as set out in Appendix III to the Circular and assuming (i) the Minimum Trust Group Market Capitalisation will be HK$48.0 billion; and (ii) the dilution of the Group's holdings in the HKEIL will be 50.1% (the "**50.1% Scenario**") and 70.0% (the "**70.0% Scenario**") immediately after completion of the Proposed Spin-off, the pro forma net asset value (the "**NAV**") of the Remaining Group as at 30 June 2013 would be HK$116,038 million in the 50.1% Scenario and HK$115,799 million in the 70.0% Scenario. Although all the assets and liabilities of HEC will be deconsolidated from the Group's balance sheet and the Group's holdings in the HKEIL will be reduced by up to 70%, the pro forma NAV of the Remaining Group will increase by approximately HK$53,312 million or approximately 85.0% in the 50.1% Scenario and HK$53,073 million or approximately 84.6% in the 70.0% Scenario as compared to the NAV of the Group as at 30 June 2013. Such increase is mainly due to the estimated pro forma gain on disposal of the partial interest of HEC to the HKEIL Group of approximately HK$53,263 million in the 50.1% Scenario and HK$53,024 million in the 70.0% Scenario.

The estimated increase in the Group's NAV mentioned above is based on a number of assumptions, including, among others, the Minimum Trust Group Market Capitalisation will be HK$48.0 billion, the Company's percentage interest in the Share Stapled Units to be issued immediately upon Completion will be 49.9% in the 50.1% Scenario and 30.0% in the 70.0% Scenario and that the Global Offering was completed on 30 June 2013. Accordingly, the actual change in the Group's NAV, which will be calculated based on the final structure of the Proposed Spin-off and the financial position of the HKEIL Group at completion of the Proposed Spin-off, may be different from the above estimation.

(b) ***Effects on earnings and dividends***

Based on the pro forma statement of profit or loss of the Remaining Group for the year ended 31 December 2012 as set out in Appendix III to the Circular and assuming (i) the Minimum Trust Group Market Capitalisation of HK$48.0 billion; and (ii) the dilution of the Group's holdings in the HKEIL will be 50.1% in the 50.1% Scenario and 70.0% in the 70.0% Scenario immediately after completion of the Proposed Spin-off, the pro forma profit for the year ended 31 December 2012 will be HK$60,005 million in the 50.1% Scenario and HK$59,151 million in the 70.0% Scenario. Such pro forma profit was mainly attributable to the one-off gain from the disposal of HEC to the HKEIL Group of approximately HK$53,277 million in the 50.1% Scenario and HK$53,038 million in the 70.0% Scenario. Excluding this one-off gain, the pro forma profit of the Remaining Group will be reduced to HK$6,728 million in the 50.1% Scenario and HK$6,113 million in the 70.0% Scenario, representing a decrease of HK$3,001 million or approximately 30.8% in the 50.1% Scenario and HK$3,616 million or approximately 37.2% in the 70.0% Scenario from the profit of the Group for the year ended 31 December 2012.

The decrease in profit was mainly due to the reduced attributable interest of the Group in the HKEIL Group following completion of the Proposed Spin-off. The Group's share of the profits of the Spin-off Group would be reduced from 100% to 49.9% in the 50.1% Scenario and 30.0% in the 70.0% Scenario following completion of the Proposed Spin-off. Such reduction may be offset by the potential growth of the existing international power businesses of the Group and potential contributions from the Group's acquisition targets after re-investing the significant proceeds from the Proposed Spin-off in the future, which, for the avoidance of doubt, have not been taken into account in the analysis of the effect on earnings above.

Although the profit of the Remaining Group will be reduced as a result of the Proposed Spin-off, the amount of dividend distribution to the Shareholders is expected to be unaffected for the years 2013 and 2014 as it is the Company's intention to maintain at least the same amount of dividend distribution as in 2012 for the years 2013 and 2014. The Company should be well placed to maintain the dividend due to the substantial book profit and significant cash proceeds receivable by the Group from the Proposed Spin-off. Bank deposits and cash are estimated to be HK$63,089 million in the 50.1% Scenario and HK$72,402 million in the 70.0% Scenario, as set out in the pro forma balance sheet of the Remaining Group as at 30 June 2013 in the Appendix III to the Circular. The dividend paid by the Company for 2012 was HK$5,228 million.

(c) ***Effects on gearing and working capital of the Group***

As at 30 June 2013, the net debt of the Group was HK$16,872 million with a net debt-to-equity ratio of approximately 26.9%. Based on the pro forma consolidated balance sheet of the Remaining Group as at 30 June 2013 as set out in Appendix III to the Circular, the Group had a pro forma net cash position of HK$53,452 million in the 50.1% Scenario and HK$62,765 million in the 70.0% Scenario.

As at 30 June 2013, the Group had net current assets of HK$3,728 million. Based on the pro forma consolidated balance sheet of the Remaining Group as at 30 June 2013 as set out in Appendix III to the Circular, the pro forma working capital position of the Remaining Group was significantly improved and the pro forma net current assets of the Remaining Group increased by HK$58,252 million or approximately 15.6 times to HK$61,980 million in the 50.1% Scenario and by HK$67,565 million or approximately 18.1 times to HK$71,293 million in the 70.0% Scenario.

The considerable improvements in both gearing and working capital position of the Remaining Group were mainly due to (i) the receipt of the cash portion of the consideration for the disposal of HEC to the HKEIL Group of approximately HK$31,733 million in the 50.1% Scenario and HK$41,046 million in the 70.0% Scenario; and (ii) the repayment of loan due from HEC of HK$22,665 million in both the 50.1% Scenario and the 70.0% Scenario, shortly after completion of the Proposed Spin-off. Given the significantly improved gearing and working capital position, we consider the Group will have great financial flexibility with regard to future investment opportunities.

(d) ***Remaining businesses of the Group***

After completion of the Proposed Spin-off, if it proceeds, the Hong Kong Electricity Business will be carried on by the HKEIL Group, which will be held by Group as an associate and accounted for in the Group's financial statements using the equity method of accounting, and the power businesses outside Hong Kong will continue to be principally held and operated through joint ventures and associates of the Company. Accordingly, all major operating assets of the Remaining Group upon completion of the Proposed Spin-off will be held through joint ventures and associates and will not be consolidated into the Group.

Based on the pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, the assets and liabilities held by HEC will be deconsolidated from the consolidated balance sheet of the Group. The major assets of the Remaining Group, upon completion of the Proposed Spin-off, will be the interests in associates and joint ventures (including both the Hong Kong Electricity Business to be held by the HKEIL Group and the power business outside Hong Kong) together with substantial amounts of bank deposits and cash. Similarly, the revenue and operating results of HEC will be deconsolidated from the consolidated statement of profit or loss and the Group therefore will have very limited amount of turnover. Profit or loss of the Remaining Group will then be mainly contributed by its associates and joint ventures.

The size and financial performance of the Remaining Group (i.e. the power business outside Hong Kong) has been growing in recent years. Profit attributable to shareholders of the Remaining Group has grown by approximately 24%, 79% and 13% for the three years ended 31 December, 2010, 2011 and 2012 respectively and has reached HK$5,187 million for the year ended 31 December 2012. Investments in the United Kingdom were the major profit contributors, particularly after completion of acquisitions of 40% stake in UK Power Networks in October 2010 and the 25% stake in Seabank Power in June 2010, which provided 81% of the total earnings of the Remaining Group for the year ended 31 December 2012. The rest of the earnings were generated from the investments in Australia, the PRC, Canada, Thailand and New Zealand. In August 2013, the Remaining Group completed an approximately EUR190 million (approximately HK$1,968 million) acquisition of a 20% stake in a Netherlands energy producer, which is principally engaged in the business of waste processing and production and supply of renewable energy from the incineration of waste in the Netherlands. The gearing of the Remaining Group has been maintained at a relative low level with a net debt-to-net total capital ratio ranging from approximately 2% to approximately 15% during the three years and six months ended 30 June 2013. These figures are calculated before taking into account the amount of at least approximately HK$52.6 billion of cash that the Remaining Group will receive in connection with the Proposed Spin-off (including the cash portion of the Disposal Consideration) and upon receiving repayment of inter-company loans.

(e) ***Dilution of interest in the HKEIL Group***

Based on the current expected structure of the Global Offering, the Group's interest in the HKEIL Group will be diluted from 100% to the range of 30% and 49.9%. The Proposed Spin-off constitutes a very substantial disposal for the Company under the Listing Rules.

In our opinion, such dilution, albeit material, is acceptable to the Shareholders taking into consideration the benefits to be derived from the Proposed Spin-off as discussed in the sections headed "Reasons for and benefits of the Proposed Spin-off" and "Effects of the Proposed Spin-off on the Group" above, including a one-off gain and increase in pro forma net assets of approximately HK$53 billion.

In addition, Qualifying Shareholders who wish to participate in the Global Offering will be given preferential treatment as to allocation in the Global Offering. The Board expects that no less than 10% of the Share Stapled Units initially available under the Global Offering will be offered as Reserved Share Stapled Units for subscription by the Qualifying Shareholders at the Offer Price under the Preferential Offering. Details of the Preferential Offering are set out in paragraph above headed "Assured entitlements".

VIII. **Conditions of the Proposed Spin-off**

The Proposed Spin-off is conditional on, among other things, the Shareholders passing an ordinary resolution by way of poll at the EGM approving the implementation of the Proposed Spin-off and other related matters. CKI, which holds an approximately 38.87% interest in the Company, is eligible to vote at the EGM. In addition, the Proposed Spin-off and the Global Offering are conditional on, among other things, the approval of the Stock Exchange and the final decision of the Board and of the respective boards of directors of the Trustee-Manager and HKEIL to proceed with the Proposed Spin-off depending on, inter alia, the prevailing market conditions, the Offer Price which can be achieved, and whether the Company's expected gain from the Disposal will, in the Directors' view, maximise the benefits to the Company and the Shareholders. The conditions are set out in full in the "Letter from the Board" in the Circular.

DISCUSSION AND ANALYSIS

(i) **Overall strategy**

The Group is a long-established utility company in Hong Kong, traditionally focused on the generation, transmission, distribution and supply of electricity to Hong Kong Island and Lamma Island. Since the 1990s, the Group has been actively investing in overseas power businesses, which in 2012 contributed over 50% of the Group's attributable profit. As the domestic Hong Kong business and the overseas power businesses have different characteristics likely to appeal to different bodies of investors, we concur with the Director's strategy in spinning off the Hong Kong Electricity Business, to be separately listed in Hong Kong through the structure of Share Stapled Units.

(ii) **Minimum Trust Group Market Capitalisation and Disposal Consideration**

The Trust Group is expected to achieve a minimum market capitalisation of at least HK$48.0 billion. Should the Minimum Trust Group Market Capitalisation not be achieved, the Proposed Spin-off will not proceed. As we consider the minimum Disposal Consideration of approximately HK$55.7 billion, which is arrived at based on the Minimum Trust Group Market Capitalisation, to be reasonable (see below), we consider these minimum floors provide adequate protection for Shareholders as regards to valuation. Shareholders' approval at another general meeting will be required to approve any revised spin-off proposal which does not meet these minimum floors.

The Proposed Spin-off is also subject to the final decision of the Board and of the respective boards of directors of the Trustee-Manager and HKEIL. The Proposed Spin-off will not necessarily proceed even if the Minimum Trust Group Market Capitalisation is achieved. The Directors have indicated in the "Letter from the Board" that they will in any event reserve to themselves the discretion to decide whether to proceed with the Proposed Spin-off and, when doing so, the Directors will take into account all factors and other considerations they consider relevant, including prevailing market conditions, the Offer Price that can be achieved, and whether the Company's expected gain from the Disposal will, in their view, maximise the benefits to the Company and the Shareholders. Considering the prevailing market conditions, the Board currently expects that, if the Proposed Spin-off proceeds, the Trust Group Market Capitalisation will be in the range of HK$48.0 billion to approximately HK$63.4 billion.

The dividend yield of the HKEIL Group as implied by the Disposal Consideration is in line with its peers which are principally valued by reference to distributions. This implied yield would be reduced should the final Trust Group Market Capitalisation be higher than HK$48.0 billion. Our analysis of EV/EBITDA also shows that the valuation of the HKEIL Group is close to its utility peers.

(iii) **Assured Entitlements**

Assured Entitlements to the Qualifying Shareholders of not less than 10% of the Offer Share Stapled Units initially available under the Global Offering are, in our view, in line with or somewhat more favourable in comparison with other similar spin-offs in Hong Kong.

(iv) **Reduction of the Company's interest in HEC**

The Company's interest in the Hong Kong Electricity Business will be reduced to in a range of 49.9% to 30.0%. We consider such level of dilution acceptable, taking into account the benefits which may be derived from the Proposed Spin-off as discussed in this letter. Qualifying Shareholders will have the opportunity to mitigate the effect of such dilution by subscribing, if they wish, for the Reserved Share Stapled Units pursuant to the Preferential Offering.

(v) **Effect of net assets, earnings and dividends**

The Hong Kong Electricity Business will no longer be accounted for as a subsidiary and will be accounted for as an associated company.

Based on the assumptions set out above and in Appendix III of this Circular, the NAV of the Group will increase by approximately HK$53 billion (or approximately 85%). One-off profits will be of the same amount, although recurring profits will decline by about HK$3 billion to HK$4 billion, before considering income to be earned from the cash proceeds of the Proposed Spin-off.

The Company has stated its intention to maintain the amount of dividend paid for 2013 and 2014 at at least the 2012 level.

(vi) **Prospects of the Remaining Group**

We consider that the Proposed Spin-off will allow the Remaining Group to focus its resources on power-related facilities and projects outside Hong Kong, which in 2012 contributed the majority of the Group's earnings. With cash proceeds of at least approximately HK$52.6 billion to be received in connection with the Proposed Spin-off, the financial position of the Remaining Group will be very strong, enabling it to pursue new acquisition opportunities in overseas power projects.

OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons as set out above, we are of the view that the terms of the Proposed Spin-off are fair and reasonable in so far as the Company and the Shareholders are concerned, and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements and the independent auditors' report of the Group (i) for the year ended 31 December 2010 are disclosed in the annual report 2009-2010 of the Company published on 4 April 2011, from pages 70 to 128; (ii) for the year ended 31 December 2011 are disclosed in the annual report 2010-2011 of the Company published on 16 April 2012, from pages 74 to 129; and (iii) for the year ended 31 December 2012 are disclosed in the annual report 2011-2012 of the Company published on 3 April 2013, from pages 78 to 133. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013 are disclosed in the interim report of the Company published on 12 August 2013, from pages 11 to 29.

All of these financial statements have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.powerassets.com).

2. INDEBTEDNESS STATEMENT

At the close of business on 31 October 2013, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding indebtedness comprising unsecured bank loans and debt securities in issue of approximately HK$23,955 million. The Group had given guarantees and indemnities totalling HK$929 million at the close of business on 31 October 2013.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured or unsecured, guaranteed or not), any mortgages or charges, or other material contingent liabilities or guarantee at the close of business on 31 October 2013.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospect of the Group since 31 December 2012, the date to which the latest audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, including internally generated funds and the proceeds from the Disposal, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Since the 1990s the Group has been actively investing in power businesses globally for the creation of long-term shareholder value. In particular, earnings from the Group's businesses outside Hong Kong have grown from approximately HK$700 million in 2007 before the global financial crisis to approximately HK$5.1 billion in 2012, contributing to over 50% of the Company's profit attributable to shareholders in the financial year ended 31 December 2012. The Group now has investments in electricity generation and distribution, gas distribution and energy from waste businesses. Our footprints can be found in the UK, Australia, the PRC, New Zealand, Canada, Thailand and the Netherlands. We continue to nurture the growth of these investments through prudent management.

In respect of the Group's Hong Kong Electricity Business, please refer to the section headed "*Overview of the Remaining Businesses and Business of the HKEIL Group — Scheme of Control in respect of the Hong Kong Electricity Business*" in the "*Letter from the Board*" of this circular for details of the approved 2014-2018 Development Plan and the 2013 interim review pursuant to the Scheme of Control governing the Hong Kong Electricity Business.

The Company will receive substantial proceeds from the disposal of the Company's controlling shareholding interest in HEC. These financial resources will enable the Company to continue to pursue new acquisitions in the global power industry, while maintaining a strong balance sheet with low gearing.

The Proposed Spin-off would allow the Company to focus more effectively on identifying new investment opportunities to further develop its power portfolio outside Hong Kong.

The Company will continue to utilise its capital in expanding its portfolio outside Hong Kong through systematic, timely and prudent investment. The Company's asset choice will be guided by the principles of stable return and a predictable income stream.

The following is the text of a report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, which is prepared for the purpose of incorporation in this circular.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

16 December 2013

The Directors
Power Assets Holdings Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to The Hongkong Electric Company, Limited ("HEC") and its subsidiary (hereinafter collectively referred to as the "Disposal Group"), comprising the consolidated balance sheets of the Disposal Group and the balance sheets of HEC as at 31 December 2010, 2011 and 2012 and 30 September 2013 and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Disposal Group, for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular dated 16 December 2013 (the "Circular") issued by Power Assets Holdings Limited (the "Company") in connection with the proposed spin-off and separate listing of the Hong Kong electricity business operated by the Disposal Group by way of the listing of share stapled units (the "Share Stapled Units") to be issued jointly by HK Electric Investments (the "Trust") and HK Electric Investments Limited (the "HKEIL") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Proposed Spin-Off").

The Trust will be constituted pursuant to a trust deed to be entered into between HK Electric Investments Manager Limited (the "Trustee-Manager") and HKEIL under the laws of Hong Kong. HKEIL was incorporated in the Cayman Islands on 23 September 2013 as an exempted company with limited liability under the Companies Law 2011 (as consolidated and revised) of the Cayman Islands. The Trustee-Manager was incorporated in Hong Kong with limited liability on 25 September 2013 and is wholly owned by the Company. All assets of the Trust will be held by the Trustee-Manager on trust on behalf of holders of the Share Stapled Units.

The Company, HKEIL and the Trustee-Manager will enter into a sale and purchase agreement pursuant to which the Company will dispose of its entire interest in HEC to Treasure Business Limited, an indirect wholly owned subsidiary of HKEIL. The details of the disposal consideration are set out in the section headed "Letter from the Board — Consideration for the Disposal" in the Circular.

Following the completion of the Proposed Spin-off (regardless of whether the Over-allotment Option is exercised or not), the Company will have an interest in not more than 49.9% and not less than 30% of the Share Stapled Units in issue and HEC will cease to be a subsidiary of the Company upon completion of the disposal.

Both companies which comprise the Disposal Group have adopted 31 December as their financial year end date.

Both companies which comprise the Disposal Group were subject to audit during the Relevant Periods and the name of the respective auditors is set out in note 1(b) of Section B below. The financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of HEC have prepared the consolidated financial statements of the Disposal Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with HKFRSs issued by the HKICPA. The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 were audited by us under separate terms of engagement with HEC in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in connection with the Proposed Spin-Off based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Hong Kong Companies Ordinance") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of HEC, its subsidiary or the Disposal Group in respect of any period subsequent to 30 September 2013.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Disposal Group and HEC as at 31 December 2010, 2011 and 2012 and 30 September 2013 and the Disposal Group's consolidated results and cash flows for the Relevant Periods then ended.

Corresponding Financial Information

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Disposal Group comprising the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 30 September 2012, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A CONSOLIDATED FINANCIAL INFORMATION OF THE DISPOSAL GROUP

1 Consolidated statements of profit or loss

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2010	2011	2012	2012	2013
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Turnover	2	10,362,998	10,184,790	10,399,601	8,061,453	7,885,468
Standard fuel costs	4	(1,776,023)	(1,783,440)	(1,805,606)	(1,404,354)	(1,360,834)
Direct costs		(2,159,189)	(2,239,354)	(2,347,183)	(1,729,129)	(1,822,188)
		6,427,786	6,161,996	6,246,812	4,927,970	4,702,446
Other revenue and other net income	5	34,199	50,384	32,122	26,039	22,403
Other operating costs		(734,394)	(639,861)	(651,987)	(458,656)	(520,823)
Finance costs	8(a)	(112,857)	(249,160)	(264,910)	(190,559)	(214,626)
Profit before taxation	8	5,614,734	5,323,359	5,362,037	4,304,794	3,989,400
Income tax	9	(936,073)	(888,855)	(890,918)	(715,214)	(660,735)
Profit after taxation		4,678,661	4,434,504	4,471,119	3,589,580	3,328,665
Scheme of Control transfers (to)/from:	10					
- Tariff Stabilisation Fund		(58,200)	46,053	71,969	(152,309)	235,001
- Rate Reduction Reserve		(932)	(1,022)	(1,410)	(1,130)	(354)
Profit attributable to the equity shareholders of HEC	11	4,619,529	4,479,535	4,541,678	3,436,141	3,563,312
Earnings per share						
Basic and diluted	12	HK$3.83	HK$3.71	HK$3.77	HK$2.85	HK$2.96

The accompanying notes form part of the Financial Information. Details of dividends payable to the equity shareholders of HEC attributable to the profit for each of the Relevant Periods are set out in section B note 13(a).

2 Consolidated statements of comprehensive income

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Profit attributable to the equity shareholders of HEC	4,619,529	4,479,535	4,541,678	3,436,141	3,563,312
Other comprehensive income for the year/period, net of tax					
Items that may be reclassified subsequently to profit or loss					
Cash flow hedges:					
Effective portion of changes in fair value of hedging instruments recognised during the year/period	18,885	9,106	17,961	55,566	6,503
Reclassification adjustments for amounts transferred to profit or loss	195	(824)	(1,811)	462	—
Amounts transferred to initial carrying amount of hedged items	(2,882)	(22,457)	(7,734)	(5,103)	6,352
Net deferred tax (charged)/credited to other comprehensive income	(2,673)	2,339	(1,389)	(8,403)	(2,121)
	13,525	(11,836)	7,027	42,522	10,734
Items that will not be reclassified subsequently to profit or loss					
Defined benefit retirement schemes:					
Remeasurement of net defined benefit obligations	380,764	(856,219)	(124,532)	(362,203)	693,874
Deferred tax credited/(charged) to other comprehensive income	—	141,276	130,778	169,993	(114,489)
	380,764	(714,943)	6,246	(192,210)	579,385
	394,289	(726,779)	13,273	(149,688)	590,119
Total comprehensive income for the year/period attributable to the equity shareholders of HEC	5,013,818	3,752,756	4,554,951	3,286,453	4,153,431

The accompanying notes form part of the Financial Information.

3 **Consolidated balance sheets**

	Section B Note	At 31 December 2010	At 31 December 2011	At 31 December 2012	At 30 September 2013
		HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets					
Fixed assets					
- Property, plant and equipment		43,585,103	43,776,231	44,455,207	43,899,825
- Assets under construction		2,238,323	2,976,141	2,852,140	3,022,555
- Interests in leasehold land held for own use under finance leases		2,152,815	2,095,629	2,038,248	2,019,999
	14	47,976,241	48,848,001	49,345,595	48,942,379
Employee retirement benefit scheme assets	26	796,397	271,233	215,721	470,461
Derivative financial instruments	24	20,646	432,537	645,669	299,628
		48,793,284	49,551,771	50,206,985	49,712,468
Current assets					
Inventories	16	746,939	1,115,081	1,114,511	990,318
Trade and other receivables	17	1,118,012	1,078,066	1,182,909	1,668,968
Amounts due from fellow subsidiaries	20(c)	1,725	5,586	5,463	5,491
Fuel Clause Recovery Account	18	569,485	1,035,209	819,781	—
Cash and bank balances		8,728	23,840	7,649	7,825
		2,444,889	3,257,782	3,130,313	2,672,602
Current liabilities					
Medium term notes	19	—	(501,847)	—	—
Amount due to a fellow subsidiary	20(c)	(10,225)	(10,225)	—	—
Current portion of bank loans	21	(50,000)	(115,000)	(5,310,488)	(792,000)
Bank overdrafts - unsecured		(1,685)	—	(5,931)	(6,022)
Trade and other payables	22	(1,569,364)	(2,559,892)	(2,310,404)	(1,931,246)
Fuel Clause Recovery Account	18	—	—	—	(1,893)
Current taxation	23(a)	(156,665)	(218,234)	(330,005)	(912,495)
		(1,787,939)	(3,405,198)	(7,956,828)	(3,643,656)
Net current assets/(liabilities)		656,950	(147,416)	(4,826,515)	(971,054)
Total assets less current liabilities		49,450,234	49,404,355	45,380,470	48,741,414

	Section B Note	At 31 December 2010	At 31 December 2011	At 31 December 2012	At 30 September 2013
		HK$'000	HK$'000	HK$'000	HK$'000
Non-current liabilities					
Loan from ultimate holding company	20(a)	(13,190,218)	(11,533,462)	(10,723,660)	(13,265,879)
Medium term notes	19	(7,542,595)	(10,161,423)	(11,169,265)	(11,518,566)
Bank loans	21	(4,993,988)	(4,996,238)	—	(1,500,000)
Derivative financial instruments	24	(131,778)	(10,019)	(302)	—
Customers' deposits		(1,747,607)	(1,801,353)	(1,838,963)	(1,880,851)
Deferred tax liabilities	23(b)	(5,762,500)	(5,882,629)	(5,911,283)	(5,943,701)
Employee retirement benefit scheme liabilities	26	(587,207)	(826,809)	(821,085)	(413,335)
		(33,955,893)	(35,211,933)	(30,464,558)	(34,522,332)
Tariff Stabilisation Fund	10(a)	(542,751)	(496,698)	(424,729)	(189,728)
Rate Reduction Reserve	10(b)	(4,172)	(1,222)	(2,632)	(2,986)
NET ASSETS		14,947,418	13,694,502	14,488,551	14,026,368
CAPITAL AND RESERVES					
Share capital	28(b)	2,411,600	2,411,600	2,411,600	2,411,600
Reserves		3,690,818	2,437,902	3,231,951	2,769,768
		6,102,418	4,849,502	5,643,551	5,181,368
Loan capital	28(c)	8,845,000	8,845,000	8,845,000	8,845,000
TOTAL EQUITY		14,947,418	13,694,502	14,488,551	14,026,368

The accompanying notes form part of the Financial Information.

4 **Balance sheets of HEC**

	Section B Note	At 31 December 2010	At 31 December 2011	At 31 December 2012	At 30 September 2013
		HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets					
Fixed assets					
- Property, plant and equipment		43,585,103	43,776,231	44,455,207	43,899,825
- Assets under construction		2,238,323	2,976,141	2,852,140	3,022,555
- Interests in leasehold land held for own use under finance leases		2,152,815	2,095,629	2,038,248	2,019,999
	14	47,976,241	48,848,001	49,345,595	48,942,379
Investment in a subsidiary	15	—	—	—	—
Employee retirement benefit scheme assets	26	796,397	271,233	215,721	470,461
Derivative financial instruments	24	20,646	432,537	645,669	299,628
		48,793,284	49,551,771	50,206,985	49,712,468
Current assets					
Inventories	16	746,939	1,115,081	1,114,511	990,318
Trade and other receivables	17	1,118,012	1,078,066	1,182,909	1,668,968
Amounts due from fellow subsidiaries	20(c)	1,725	5,586	5,463	5,491
Fuel Clause Recovery Account	18	569,485	1,035,209	819,781	—
Cash and bank balances		8,728	23,840	7,649	7,825
		2,444,889	3,257,782	3,130,313	2,672,602
Current liabilities					
Loan from a subsidiary	20(b)	—	(501,847)	—	—
Amount due to a subsidiary	20(c)	(33,010)	(40,901)	(40,495)	(100,935)
Amount due to a fellow subsidiary	20(c)	(10,225)	(10,225)	—	—
Current portion of bank loans	21	(50,000)	(115,000)	(5,310,488)	(792,000)
Bank overdrafts - unsecured		(1,685)	—	(5,931)	(6,022)
Trade and other payables	22	(1,536,354)	(2,518,991)	(2,269,909)	(1,830,311)
Fuel Clause Recovery Account	18	—	—	—	(1,893)
Current taxation	23(a)	(156,665)	(218,234)	(330,005)	(912,495)
		(1,787,939)	(3,405,198)	(7,956,828)	(3,643,656)
Net current assets/(liabilities)		656,950	(147,416)	(4,826,515)	(971,054)
Total assets less current liabilities		49,450,234	49,404,355	45,380,470	48,741,414

	Section B Note	At 31 December 2010	At 31 December 2011	At 31 December 2012	At 30 September 2013
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Loan from ultimate holding company	20(a)	(13,190,218)	(11,533,462)	(10,723,660)	(13,265,879)
Loan from a subsidiary	20(b)	(7,542,595)	(10,161,423)	(11,169,265)	(11,518,566)
Bank loans	21	(4,993,988)	(4,996,238)	—	(1,500,000)
Derivative financial instruments	24	(131,778)	(10,019)	(302)	—
Customers' deposits		(1,747,607)	(1,801,353)	(1,838,963)	(1,880,851)
Deferred tax liabilities	23(b)	(5,762,500)	(5,882,629)	(5,911,283)	(5,943,701)
Employee retirement benefit scheme liabilities	26	(587,207)	(826,809)	(821,085)	(413,335)
		(33,955,893)	(35,211,933)	(30,464,558)	(34,522,332)
Tariff Stabilisation Fund	10(a)	(542,751)	(496,698)	(424,729)	(189,728)
Rate Reduction Reserve	10(b)	(4,172)	(1,222)	(2,632)	(2,986)
NET ASSETS		14,947,418	13,694,502	14,488,551	14,026,368
CAPITAL AND RESERVES					
Share capital	28(b)	2,411,600	2,411,600	2,411,600	2,411,600
Reserves		3,690,818	2,437,902	3,231,951	2,769,768
		6,102,418	4,849,502	5,643,551	5,181,368
Loan capital	28(c)	8,845,000	8,845,000	8,845,000	8,845,000
TOTAL EQUITY		14,947,418	13,694,502	14,488,551	14,026,368

The accompanying notes form part of the Financial Information.

5 Consolidated statements of changes in equity

	Attributable to the equity shareholders of HEC					
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	Total
	(note 28(b))	(note 28(d))		(note 13)	(note 28(c))	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2010	2,411,600	(5,379)	5,379	4,196,091	8,845,000	15,452,691
Changes in equity for 2010:						
Profit attributable to the equity shareholders	—	—	4,619,529	—	—	4,619,529
Other comprehensive income	—	13,525	380,764	—	—	394,289
Total comprehensive income for the year	—	13,525	5,000,293	—	—	5,013,818
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(4,196,091)	—	(4,196,091)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(3,682,672)	3,682,672	—	—
Balance at 31 December 2010 and 1 January 2011	2,411,600	8,146	—	3,682,672	8,845,000	14,947,418
Changes in equity for 2011:						
Profit attributable to the equity shareholders	—	—	4,479,535	—	—	4,479,535
Other comprehensive income	—	(11,836)	(714,943)	—	—	(726,779)
Total comprehensive income for the year	—	(11,836)	3,764,592	—	—	3,752,756
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(3,682,672)	—	(3,682,672)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(2,437,902)	2,437,902	—	—
Balance at 31 December 2011 and 1 January 2012	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
Changes in equity for 2012:						
Profit attributable to the equity shareholders	—	—	4,541,678	—	—	4,541,678
Other comprehensive income	—	7,027	6,246	—	—	13,273
Total comprehensive income for the year	—	7,027	4,547,924	—	—	4,554,951
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(3,228,614)	3,228,614	—	—
Balance at 31 December 2012	2,411,600	3,337	—	3,228,614	8,845,000	14,488,551

	Attributable to the equity shareholders of HEC					
	Share capital	**Hedging reserve**	**Revenue reserve**	**Proposed/ declared dividend**	**Loan capital**	**Total**
	(note 28(b))	**(note 28(d))**		**(note 13)**	**(note 28(c))**	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2013	2,411,600	3,337	—	3,228,614	8,845,000	14,488,551
Changes in equity for the nine months ended 30 September 2013:						
Profit attributable to the equity shareholders	—	—	3,563,312	—	—	3,563,312
Other comprehensive income	—	10,734	579,385	—	—	590,119
Total comprehensive income for the period	—	10,734	4,142,697	—	—	4,153,431
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(3,228,614)	—	(3,228,614)
Interim dividend paid (see note 13(a))	—	—	(1,387,000)	—	—	(1,387,000)
Balance at 30 September 2013	2,411,600	14,071	2,755,697	—	8,845,000	14,026,368
Unaudited						
Balance at 1 January 2012	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
Changes in equity for the nine months ended 30 September 2012:						
Profit attributable to the equity shareholders	—	—	3,436,141	—	—	3,436,141
Other comprehensive income	—	42,522	(192,210)	—	—	(149,688)
Total comprehensive income for the period	—	42,522	3,243,931	—	—	3,286,453
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Balance at 30 September 2012	2,411,600	38,832	1,924,621	—	8,845,000	13,220,053

The accompanying notes form part of the Financial Information.

6 Consolidated cash flow statements

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2010	2011	2012	2012	2013
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000*
Operating activities						
Cash generated from operations	27	7,661,423	7,319,726	7,603,253	5,803,441	6,327,129
Interest received		268	85	274	265	18
Interest paid		(156,789)	(314,498)	(292,748)	(221,893)	(230,117)
Hong Kong Profits Tax paid		(877,647)	(563,542)	(621,104)	(171,983)	(162,437)
Rate Reduction Reserve rebated		(10,924)	(3,972)	—	—	—
Net cash generated from operating activities		6,616,331	6,437,799	6,689,675	5,409,830	5,934,593
Investing activities						
Purchase of fixed assets and capital stock		(2,235,951)	(2,477,610)	(2,604,969)	(2,075,308)	(1,537,908)
Capitalised interest paid		(51,668)	(55,017)	(72,608)	(58,338)	(47,110)
Proceeds from disposal of fixed assets		3,979	937	1,866	1,155	2,019
Net cash used in investing activities		(2,283,640)	(2,531,690)	(2,675,711)	(2,132,491)	(1,582,999)
Financing activities						
(Decrease)/increase in loan from ultimate holding company		(3,671,908)	(1,656,756)	(809,802)	(265,728)	2,542,219
Proceeds from issuance of medium term notes		4,659,151	2,654,325	800,000	800,000	700,000
Redemption of medium term notes		—	—	(500,000)	(500,000)	—
Proceeds from new bank loans		50,000	65,000	197,000	425,000	1,980,000
Repayment of bank loans		—	—	—	—	(5,000,000)
New customers' deposits		304,557	276,651	278,302	206,753	200,949
Repayment of customers' deposits		(233,459)	(222,905)	(240,692)	(179,682)	(159,061)
Dividends paid		(5,519,091)	(5,005,672)	(3,760,902)	(3,760,902)	(4,615,614)
Net cash used in financing activities		(4,410,750)	(3,889,357)	(4,036,094)	(3,274,559)	(4,351,507)

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2010	**2011**	**2012**	**2012**	**2013**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000*
(Decrease)/increase in cash and cash equivalents		(78,059)	16,752	(22,130)	2,780	87
Cash and cash equivalents at 1 January		91,859	7,043	23,840	23,840	1,718
Effect of foreign exchange rate changes		(6,757)	45	8	(10)	(2)
Cash and cash equivalents at 31 December/ 30 September		7,043	23,840	1,718	26,610	1,803
Analysis of the balances of cash and cash equivalents						
Cash and bank balances		8,728	23,840	7,649	26,610	7,825
Bank overdrafts - unsecured		(1,685)	—	(5,931)	—	(6,022)
		7,043	23,840	1,718	26,610	1,803

The accompanying notes form part of the Financial Information.

B NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 Significant accounting policies

(a) *Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, The Hongkong Electric Company, Limited ("HEC") and its subsidiary, Hongkong Electric Finance Limited ("HEFL") (collectively referred to as the "Disposal Group") have adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2013 are set out in note 35.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the nine months ended 30 September 2012 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) ***Basis of presentation***

The Financial Information comprises HEC and its subsidiary.

At the date of this report and during the Relevant Periods, the particulars of the companies comprising the Disposal Group, both of which are companies incorporated with limited liability, are as follows:

Name of company	Place of incorporation	Date of incorporation	Issued share capital	Interest held by Power Assets Holdings Limited ("PAH") during the Relevant Periods and at the date of this report	Principal activity
HEC	Hong Kong	24 January 1889	HK$2,411,600,000	100% (direct)	Generation and supply of electricity to Hong Kong Island and Lamma Island
HEFL	The British Virgin Islands	12 April 2000	US$1	100% (indirect)	Financing

The statutory financial statements of HEC for each of the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and were audited by KPMG in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") under separate engagements.

There are no statutory requirements to prepare financial statements for companies incorporated in the British Virgin Islands. The non-statutory financial statements of HEFL for each of the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with HKFRSs and were audited by KPMG in accordance with HKSA issued by the HKICPA under separate engagements.

(c) ***Basis of measurement***

The Financial Information is presented in Hong Kong dollars ("HK$") rounded to the nearest thousand, except as otherwise stated herein. It is prepared on the historical cost basis except as set out in the accounting policies hereunder.

(d) ***Going concern***

The Financial Information has been prepared assuming the Disposal Group will continue as a going concern notwithstanding the net current liabilities of the Disposal Group at 30 September 2013.

At 30 September 2013, the Disposal Group and HEC recorded net current liabilities of HK$971,054,000 which included the current portion of bank loans of HK$792,000,000. The Disposal Group and HEC had undrawn committed bank facilities of HK$3,770,000,000 at 30 September 2013, of which, HK$2,770,000,000 was available for a period longer than one year which together with strong cash flows, will enable the Disposal Group and HEC to return to a net current assets position in near future. In light of the foregoing, the Financial Information has been prepared on a going concern basis.

(e) ***Use of estimates and judgments***

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 34.

(f) ***Subsidiaries***

Subsidiaries are entities controlled by the Disposal Group. The Disposal Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Disposal Group has power, only substantive rights (held by the Disposal Group and other parties) are considered.

The financial information of the subsidiaries is included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Disposal Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Disposal Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In HEC's balance sheet, the investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(g) ***Fixed assets, depreciation and amortisation***

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)(vii)), amortisation (see note 1(g)(vi)) and impairment losses (see note 1(i)).

(ii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

(iii) Where parts of a fixed asset have different useful lives, the cost of the fixed asset is allocated on a reasonable basis between the parts and each part is depreciated separately. Subsequent expenditure to replace a component of a fixed asset that is accounted for separately, or to improve its operational performance is included in the asset's carrying amount or recognised as a separate asset as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Disposal Group and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

(v) Interests in leasehold land held for own use under finance leases are stated in the balance sheet at cost less accumulated amortisation (see note 1(g)(vi)) and impairment losses (see note 1(i)).

(vi) The cost of acquiring land held under finance leases is amortised on a straight-line basis over the period of the unexpired lease terms.

(vii) Depreciation is calculated to write off the cost of fixed assets less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Cable tunnels	100 years
— Buildings	60 years
— Ash lagoon and gas pipeline	60 years
— Transmission and distribution equipment, overhead lines and cables	60 years
— Generating plant and machinery	35 years
— Gas turbines and gas turbine combined cycle	30 years
— Mechanical meters	30 years
— Photovoltaic systems	25 years
— Wind turbines	20 years
— Electronic meters, microwave and optical fibre equipment and trunk radio systems	15 years
— Furniture and fixtures, sundry plant and equipment	10 years
— Computers	5 to 10 years
— Motor vehicles and marine craft	5 to 6 years
— Workshop tools and office equipment	5 years

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) ***Leased assets and operating lease charges***

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Disposal Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Disposal Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(i) ***Impairment of assets***

(i) *Impairment of investment in a subsidiary, trade and other receivables and other financial assets*

Investment in a subsidiary, trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Disposal Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investment in a subsidiary recognised at cost, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).

— For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. For financial assets carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets including assets under construction may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) ***Short term employee benefits***

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(k) ***Retirement scheme obligations***

(i) The Disposal Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on Hong Kong Special Administrative Region Government Exchange Fund Notes that have maturity dates approximating the terms of the Disposal Group's obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in revenue reserve and will not be reclassified to profit or loss.

The Disposal Group determines the net interest expense or income for the period on the net defined benefit liability or asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset at the beginning of the annual period, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Where the calculation of the Disposal Group's net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised past service costs and the present value of any future refunds from the schemes or reductions in future contributions to the schemes.

(ii) Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(l) ***Inventories***

Coal, stores, fuel oil and natural gas are valued at cost measured on a weighted average basis.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories recognised as an expense includes the write-off and all losses of inventories.

(m) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 1(q)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

For fixed interest borrowings that are designated as hedged items in fair value hedges, fair value changes that are attributable to the hedged risk are recognised in profit or loss (see note 1(q)(i)).

(o) ***Trade and other payables***

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) ***Derivative financial instruments***

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(q)).

(q) ***Hedging***

(i) *Fair value hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Disposal Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(r) ***Revenue recognition***

(i) *Regulation of earnings under the Scheme of Control Agreement*

The earnings of HEC are regulated by the Hong Kong SAR Government ("the Government") under a Scheme of Control Agreement ("SoCA") which provides for a permitted level of earnings based principally on a return on HEC's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The SoCA also provides for performance based incentives and penalties which encourage emission reduction, customer service quality, energy efficiency and the use of renewable energy. The Net Return of HEC under the SoCA is determined by deducting from the Permitted Return interest and excess capacity adjustments, if any, and adjusting for the abovementioned incentives and penalties. HEC is required to submit detailed Development Plans for approval by the Executive Council of the Government which project the key determinants of the Net Return to which HEC will be entitled over the Development Plan period.

The Government has approved the Development Plan covering the period from 2009 to 2013. No further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) *Fuel Clause Recovery Account*

Under the SoCA, any difference between the standard cost of fuel, as agreed with the Government, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account ("Fuel Cost Account Adjustments").

Fuel Clause Charges (or Rebates) are charged (or given) to customers by adding to (or deducting from) the Basic Tariff to produce a Net Tariff payable by customers and are credited (or debited) to the Fuel Clause Recovery Account.

The balance on the Fuel Clause Recovery Account at the end of a financial year represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates. Any debit balance is carried forward as a deferred receivable to be recovered from Fuel Clause Charges and/or Fuel Cost Account Adjustments and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Rebates and/or Fuel Cost Account Adjustments.

Fuel Clause Charges or Rebates are utilised to smooth increases in Net Tariffs paid by customers. The impact of tariff smoothing is to reduce the Net Tariffs payable by customers in certain years and increase the Net Tariffs in other years. However, the tariff smoothing has no impact on HEC's total earnings and the related balance on the Fuel Clause Recovery Account is expected to be recovered by Fuel Clause Charges and/or Fuel Cost Account Adjustments.

(iii) *Income recognition*

Electricity income is recognised based on the actual and accrued units of electricity consumed by customers during the year at the Basic Tariff, which is the unit charge agreed with the Government during the Annual Tariff Review for each financial year.

Electricity-related income is recognised when the related services are rendered.

Interest income is recognised on a time apportioned basis using the effective interest method.

(s) ***Translation of foreign currencies***

The Financial Information is presented in Hong Kong dollars which is HEC's functional currency and the Disposal Group's and HEC's presentation currency.

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates, or at contract rates if foreign currencies are hedged by forward foreign exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date.

Exchange gains and losses in respect of fixed assets under construction are, up to the date of commissioning, incorporated in the cost of the assets. All other exchange differences are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(t) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Disposal Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(u) ***Income tax***

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

(v) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) ***Financial guarantees issued, provisions and contingent liabilities***

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in profit or loss.

(ii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Disposal Group or HEC has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) ***Related parties***

(a) A person or a close member of that person's family is related to the Disposal Group if that person:

(i) has control or joint control over the Disposal Group;

(ii) has significant influence over the Disposal Group; or

(iii) is a member of the key management personnel of the Disposal Group or the Disposal Group's parent.

(b) An entity is related to the Disposal Group if any of the following conditions apply:

(i) The entity and the Disposal Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Disposal Group or an entity related to the Disposal Group.

(vi) The entity is controlled or jointly controlled by a person identified in (x)(a).

(vii) A person identified in (x)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Disposal Group for the purposes of resource allocation and performance assessment. Accordingly, the Disposal Group's aggregated operating segments are based on their principal activities and geographical regions to present the reportable segments.

2 Turnover

The principal activity of the Disposal Group is the generation and supply of electricity to Hong Kong Island and Lamma Island.

Turnover is analysed as follows:

	Years ended 31 December			**Nine months ended 30 September**	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Sales of electricity	10,337,644	10,140,054	10,363,713	8,044,730	7,871,141
Concessionary discount on sales of electricity	(6,008)	(6,470)	(6,890)	(5,229)	(4,910)
Electricity-related income	31,362	51,206	42,778	21,952	19,237
	10,362,998	10,184,790	10,399,601	8,061,453	7,885,468

The Disposal Group's customer base is diversified and does not have customer with whom transactions have exceeded 10% of the Disposal Group's turnover during the Relevant Periods.

3 Segment reporting

The Disposal Group has one reporting segment which is the generation and supply of electricity to Hong Kong Island and Lamma Island. All segment assets are located in Hong Kong. The Disposal Group's chief operating decision-maker reviews the consolidated results of the Disposal Group for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

4 Standard fuel costs

Standard fuel costs represent the standard cost of fuel as agreed with the Government including the actual fuel costs and Fuel Cost Account Adjustments as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Actual fuel costs	4,570,768	5,538,396	5,672,861	4,357,743	3,880,490
Fuel Cost Account Adjustments (see note 18)	(2,794,745)	(3,754,956)	(3,867,255)	(2,953,389)	(2,519,656)
Standard fuel costs	1,776,023	1,783,440	1,805,606	1,404,354	1,360,834

5 Other revenue and other net income

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Net profit on sale of fixed assets	3,071	818	273	823	1,892
Interest income from financial assets not at fair value through profit or loss	268	85	274	265	18
Sundry income	30,860	49,481	31,575	24,951	20,493
	34,199	50,384	32,122	26,039	22,403

6 **Directors' remuneration of HEC**

Year ended 31 December 2010

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fok Kin Ning, Canning	—	652	—	—	652
Wan Chi Tin	—	7	—	—	7
Chow Woo Mo Fong, Susan	—	85	—	—	85
Andrew John Hunter	—	32	—	—	32
Kam Hing Lam	—	50	—	—	50
Li Tzar Kuoi, Victor	—	498	—	—	498
Frank John Sixt	—	66	—	—	66
Yuen Sui See	—	3,552	712	1,800	6,064
Tso Kai Sum	—	40	—	—	40
Ronald Joseph Arculli	—	51	—	—	51
Holger Kluge	—	—	—	—	—
Lee Lan Yee, Francis	—	21	—	—	21
George Colin Magnus	—	31	—	—	31
Neil Douglas McGee	—	—	—	—	—
Ralph Raymond Shea	—	35	—	—	35
Wong Chung Hin	—	79	—	—	79
Total	—	5,199	712	1,800	7,711

Year ended 31 December 2011

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fok Kin Ning, Canning	—	750	—	—	750
Wan Chi Tin	—	7	—	—	7
Chow Woo Mo Fong, Susan	—	83	—	—	83
Andrew John Hunter	—	31	—	—	31
Kam Hing Lam	—	48	—	—	48
Li Tzar Kuoi, Victor	—	495	—	—	495
Frank John Sixt	—	65	—	—	65
Yuen Sui See	—	3,365	12	1,800	5,177
Tso Kai Sum	—	39	—	—	39
Ronald Joseph Arculli	—	50	—	—	50
Holger Kluge	—	—	—	—	—
Lee Lan Yee, Francis	—	21	—	—	21
George Colin Magnus	—	27	—	—	27
Neil Douglas McGee	—	—	—	—	—
Ralph Raymond Shea	—	30	—	—	30
Wong Chung Hin	—	71	—	—	71
Total	—	5,082	12	1,800	6,894

Year ended 31 December 2012

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fok Kin Ning, Canning	—	756	—	—	756
Wan Chi Tin	—	6	—	—	6
Chan Loi Shun (note (a))	—	5	—	—	5
Chow Woo Mo Fong, Susan	—	82	—	—	82
Andrew John Hunter	—	32	—	—	32
Kam Hing Lam	—	34	—	—	34
Li Tzar Kuoi, Victor	—	524	—	—	524
Frank John Sixt	—	76	—	—	76
Yuen Sui See	—	3,642	14	2,646	6,302
Tso Kai Sum	—	41	—	—	41
Ronald Joseph Arculli	—	50	—	—	50
Fong Chi Wai, Alex (note (b))	—	1	—	—	1
Holger Kluge	—	—	—	—	—
Lee Lan Yee, Francis	—	24	—	—	24
George Colin Magnus	—	25	—	—	25
Neil Douglas McGee	—	—	—	—	—
Ralph Raymond Shea	—	36	—	—	36
Wong Chung Hin	—	72	—	—	72
Total	—	5,406	14	2,646	8,066

Nine months ended 30 September 2012 (unaudited)

Name of directors	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fok Kin Ning, Canning	—	570	—	—	570
Wan Chi Tin	—	5	—	—	5
Chan Loi Shun (note (a))	—	3	—	—	3
Chow Woo Mo Fong, Susan	—	67	—	—	67
Andrew John Hunter	—	26	—	—	26
Kam Hing Lam	—	28	—	—	28
Li Tzar Kuoi, Victor	—	401	—	—	401
Frank John Sixt	—	57	—	—	57
Yuen Sui See	—	2,736	10	1,417	4,163
Tso Kai Sum	—	32	—	—	32
Ronald Joseph Arculli	—	40	—	—	40
Holger Kluge	—	—	—	—	—
Lee Lan Yee, Francis	—	19	—	—	19
George Colin Magnus	—	19	—	—	19
Neil Douglas McGee	—	—	—	—	—
Ralph Raymond Shea	—	28	—	—	28
Wong Chung Hin	—	54	—	—	54
Total	—	4,085	10	1,417	5,512

Nine months ended 30 September 2013

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fok Kin Ning, Canning	—	599	—	—	599
Wan Chi Tin	—	5	—	—	5
Chan Loi Shun	—	5	—	—	5
Chow Woo Mo Fong, Susan	—	70	—	—	70
Andrew John Hunter	—	21	—	—	21
Kam Hing Lam	—	25	—	—	25
Li Tzar Kuoi, Victor	—	419	—	—	419
Frank John Sixt	—	54	—	—	54
Yuen Sui See (note (c))	—	10	—	—	10
Tso Kai Sum	—	29	—	—	29
Ronald Joseph Arculli	—	42	—	—	42
Fong Chi Wai, Alex	—	18	—	—	18
Holger Kluge	—	—	—	—	—
Lee Lan Yee, Francis	—	17	—	—	17
George Colin Magnus	—	21	—	—	21
Neil Douglas McGee	—	—	—	—	—
Ralph Raymond Shea	—	28	—	—	28
Wong Chung Hin	—	55	—	—	55
Total	—	1,418	—	—	1,418

Notes:

(a) Appointed as director on 1 June 2012.

(b) Appointed as director on 5 December 2012.

(c) Mr. Yuen Sui See was employed by the Company with effect from 1 January 2013.

(d) During the Relevant Periods, no amount was paid or payable by the Disposal Group to the directors or any of the five highest paid individual set out in note 7 below as an inducement to join or upon joining the Disposal Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

7 **Individuals with highest emoluments**

The five highest paid individuals of the Disposal Group included one director of HEC for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 whose total emoluments are shown above. The remuneration of the other four individuals for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 who comprises the five highest paid individuals of the Disposal Group and the five highest paid individuals of the Disposal Group for the nine months ended 30 September 2013 is set out below:

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Short-term employee benefits	12,047	11,779	12,221	8,971	10,838
Post-employment benefits	2,101	2,152	1,727	1,319	1,502
	14,148	13,931	13,948	10,290	12,340

The total remuneration of senior management, excluding directors, is within the following bands:

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	Number	*Number*	*Number*	*Number* *(unaudited)*	*Number*
$500,001 - $1,000,000	—	—	—	—	—
$1,000,001 - $1,500,000	—	—	—	—	—
$1,500,001 - $2,000,000	—	—	—	—	2
$2,000,001 - $2,500,000	—	—	—	2	1
$2,500,001 - $3,000,000	1	2	1	1	1
$3,000,001 - $3,500,000	1	—	1	1	1
$3,500,001 - $4,000,000	1	1	1	—	—
$4,000,001 - $4,500,000	1	1	1	—	—

8 Profit before taxation

Profit before taxation is shown after charging/(crediting):

		Years ended 31 December			Nine months ended 30 September	
		2010	2011	2012	2012	2013
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
(a)	Finance costs					
	Interest on overdrafts, bank loans and medium term notes repayable within five years	91,126	144,106	150,714	106,818	111,236
	Interest on bank loans and medium term notes repayable after five years	81,104	174,663	202,291	149,010	167,793
	Total interest expense arising from financial liabilities not at fair value through profit or loss	172,230	318,769	353,005	255,828	279,029
	Less: interest capitalised to fixed assets	(42,556)	(50,032)	(67,695)	(50,032)	(49,375)
	interest transferred to fuel costs	(16,817)	(19,577)	(20,400)	(15,237)	(15,028)
		112,857	249,160	264,910	190,559	214,626
(b)	Depreciation	1,736,005	1,779,414	1,862,207	1,373,382	1,441,132
(c)	Amortisation of leasehold land	58,030	58,061	58,192	43,801	43,866
(d)	Costs of inventories	4,578,351	5,552,115	5,856,950	4,534,378	3,892,852
(e)	Staff costs	383,073	388,909	432,928	315,466	374,310
(f)	Net loss on disposal of fixed assets and fixed assets written off	42,854	38,222	46,662	14,371	11,930
(g)	Auditor's remuneration	3,513	3,305	3,858	2,618	2,679
(h)	Write down of inventories	5,144	5,429	5,265	2,929	2,983

Interest expenses have been capitalised at the average rate of approximately 1.7% per annum, 1.9% per annum and 2.0% per annum for the years ended 31 December 2010, 2011 and 2012, respectively and 2.0% per annum (unaudited) and 2.2% per annum for the nine months ended 30 September 2012 and 2013, respectively, for assets under construction.

9 Income tax in the consolidated statements of profit or loss

(a) ***Taxation in the consolidated statements of profit or loss represents:***

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Current tax					
Provision for Hong Kong Profits Tax for the year/period	797,000	625,111	817,318	646,475	744,927
Under/(over)-provision in respect of prior years	929	—	(84,443)	(67,456)	—
	797,929	625,111	732,875	579,019	744,927
Deferred tax (see note 23(b))					
Reversal and origination of temporary differences	138,144	263,744	158,043	136,195	(84,192)
	936,073	888,855	890,918	715,214	660,735

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Periods.

Over-provision in respect of prior years for the year ended 31 December 2012 and the nine months ended 30 September 2012 resulted from a change in the Inland Revenue Department's practice in assessing the deductibility of defined benefit retirement scheme expenses.

(b) ***Reconciliation between tax expense and accounting profit at applicable tax rates:***

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Profit before taxation	5,614,734	5,323,359	5,362,037	4,304,794	3,989,400
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5%	926,431	878,354	884,736	710,291	658,251
Tax effect of non-deductible expenses	13,061	13,088	12,699	10,179	6,986
Tax effect of non-taxable income	(2,546)	(1,931)	(2,358)	(1,938)	(4,502)
Tax effect on Rate Reduction Reserve rebated	(1,802)	(656)	—	—	—
Tax effect of recognition of previously unrecognised temporary differences	—	—	80,284	64,138	—
Under/(over)-provision in respect of prior years	929	—	(84,443)	(67,456)	—
Actual tax expense	936,073	888,855	890,918	715,214	660,735

10 Scheme of control transfers

The financial operations of HEC are governed by the SoCA agreed with the Government which provides for HEC to earn a Permitted Return (see note 1(r)(i)). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HEC. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In addition, a charge calculated by applying the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HEC to a Rate Reduction Reserve, which amount is subsequently rebated to customers. Movements in the Tariff Stabilisation Fund and Rate Reduction Reserve are as follows:

The Disposal Group and HEC

	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Tariff Stabilisation Fund				
At 1 January	484,551	542,751	496,698	424,729
Transfer from/(to) the consolidated statements of profit or loss	58,200	(46,053)	(71,969)	(235,001)
At 31 December/30 September	542,751	496,698	424,729	189,728
(b) Rate Reduction Reserve				
At 1 January	14,164	4,172	1,222	2,632
Transfer from the consolidated statements of profit or loss	932	1,022	1,410	354
Rebate to customers	(10,924)	(3,972)	—	—
At 31 December/30 September	4,172	1,222	2,632	2,986

11 **Profit attributable to the equity shareholders of HEC**

The consolidated profit attributable to the equity shareholders of HEC includes a profit of HK$4,619,529,000, HK$4,479,535,000, HK$4,541,678,000, HK$3,436,141,000 (unaudited) and HK$3,563,312,000 for the years ended 31 December 2010, 2011 and 2012, and the nine months ended 30 September 2012 and 2013, respectively, which has been dealt with in the financial statements of HEC.

12 **Earnings per share**

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of HEC for the years ended 31 December 2010, 2011 and 2012 and for the nine months ended 30 September 2012 and 2013 of HK$4,619,529,000, HK$4,479,535,000, HK$4,541,678,000, HK$3,436,141,000 (unaudited) and HK$3,563,312,000, respectively, and 1,205,800,000 ordinary shares in issue throughout the Relevant Periods.

There were no dilutive potential ordinary shares in existence during the Relevant Periods.

13 **Dividends payable to the equity shareholders of HEC attributable to the year/period**

(a) ***Dividends payable to the equity shareholders of HEC attributable to the year/period***

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Interim dividend declared and paid of HK$1.10 per share for each of the years ended 31 December 2010, 2011 and 2012 and HK$1.15 per share for the year ending 31 December 2013	1,323,000	1,323,000	1,323,000	1,323,000	1,387,000
Final dividend proposed after the balance sheet date of HK$3.05 per share, HK$2.02 per share and HK$2.68 per share for the years ended 31 December 2010, 2011 and 2012, respectively	3,682,672	2,437,902	3,228,614	—	—
	5,005,672	3,760,902	4,551,614	1,323,000	1,387,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) ***Dividends payable to the equity shareholders of HEC attributable to the previous financial year, approved and paid during the year/period***

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 of HK$3.48 per share, HK$3.05 per share, HK$2.02 per share and HK$2.02 per share and HK$2.68 per share, respectively	4,196,091	3,682,672	2,437,902	2,437,902	3,228,614

14 Fixed assets

The Disposal Group and HEC

	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2010	13,785,198	56,318,092	834,268	2,540,377	73,477,935	2,815,077	76,293,012
Additions	2,442	569,560	61,611	1,791,236	2,424,849	1,931	2,426,780
Disposals	(247)	(383,624)	(19,986)	—	(403,857)	(832)	(404,689)
Transfers	79,622	1,993,021	20,647	(2,093,290)	—	—	—
At 31 December 2010	13,867,015	58,497,049	896,540	2,238,323	75,498,927	2,816,176	78,315,103
At 1 January 2011	13,867,015	58,497,049	896,540	2,238,323	75,498,927	2,816,176	78,315,103
Additions	4,532	763,961	89,741	2,027,776	2,886,010	875	2,886,885
Disposals	(148)	(655,577)	(99,131)	—	(754,856)	—	(754,856)
Transfers	93,346	1,180,638	15,974	(1,289,958)	—	—	—
At 31 December 2011	13,964,745	59,786,071	903,124	2,976,141	77,630,081	2,817,051	80,447,132
At 1 January 2012	13,964,745	59,786,071	903,124	2,976,141	77,630,081	2,817,051	80,447,132
Additions	4,351	581,706	49,637	1,976,404	2,612,098	811	2,612,909
Disposals	(822)	(287,723)	(8,094)	—	(296,639)	—	(296,639)
Transfers	151,009	1,922,432	26,964	(2,100,405)	—	—	—
At 31 December 2012	14,119,283	62,002,486	971,631	2,852,140	79,945,540	2,817,862	82,763,402
At 1 January 2013	14,119,283	62,002,486	971,631	2,852,140	79,945,540	2,817,862	82,763,402
Additions	161	186,715	9,381	970,869	1,167,126	25,617	1,192,743
Disposals	—	(214,537)	(9,887)	—	(224,424)	—	(224,424)
Transfers	30,069	767,457	2,928	(800,454)	—	—	—
At 30 September 2013	14,149,513	62,742,121	974,053	3,022,555	80,888,242	2,843,479	83,731,721
Accumulated depreciation and amortisation							
At 1 January 2010	4,717,157	22,816,496	630,932	—	28,164,585	605,544	28,770,129
Written back on disposals	(149)	(316,400)	(19,528)	—	(336,077)	(213)	(336,290)
Charge for the year	243,141	1,553,649	50,203	—	1,846,993	58,030	1,905,023
At 31 December 2010	4,960,149	24,053,745	661,607	—	29,675,501	663,361	30,338,862

	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	4,960,149	24,053,745	661,607	—	29,675,501	663,361	30,338,862
Written back on disposals	(112)	(589,296)	(99,495)	—	(688,903)	—	(688,903)
Charge for the year	245,608	1,589,142	56,361	—	1,891,111	58,061	1,949,172
At 31 December 2011	5,205,645	25,053,591	618,473	—	30,877,709	721,422	31,599,131
At 1 January 2012	5,205,645	25,053,591	618,473	—	30,877,709	721,422	31,599,131
Written back on disposals	(532)	(204,884)	(7,963)	—	(213,379)	—	(213,379)
Charge for the year	248,891	1,660,993	63,979	—	1,973,863	58,192	2,032,055
At 31 December 2012	5,454,004	26,509,700	674,489	—	32,638,193	779,614	33,417,807
At 1 January 2013	5,454,004	26,509,700	674,489	—	32,638,193	779,614	33,417,807
Written back on disposals	—	(192,042)	(9,714)	—	(201,756)	—	(201,756)
Charge for the period	188,739	1,290,759	49,927	—	1,529,425	43,866	1,573,291
At 30 September 2013	5,642,743	27,608,417	714,702	—	33,965,862	823,480	34,789,342
Net book value							
At 31 December 2010	8,906,866	34,443,304	234,933	2,238,323	45,823,426	2,152,815	47,976,241
At 31 December 2011	8,759,100	34,732,480	284,651	2,976,141	46,752,372	2,095,629	48,848,001
At 31 December 2012	8,665,279	35,492,786	297,142	2,852,140	47,307,347	2,038,248	49,345,595
At 30 September 2013	8,506,770	35,133,704	259,351	3,022,555	46,922,380	2,019,999	48,942,379

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 amounted to HK$42,556,000, HK$50,032,000, HK$67,695,000, HK$50,032,000 (unaudited) and HK$49,375,000, respectively.

Leasehold land at 31 December 2010, 2011 and 2012 and 30 September 2013 is held in Hong Kong and comprises long term and medium term leasehold land with carrying values of HK$42,022,000 and HK$2,110,793,000, HK$41,796,000 and HK$2,053,833,000 and HK$41,439,000 and HK$1,996,809,000 and HK$41,170,000 and HK$1,978,829,000, respectively.

Depreciation charges for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 included HK$110,988,000, HK$111,697,000, HK$111,656,000, HK$83,684,000 (unaudited) and HK$88,293,000, respectively, relating to assets utilised in development activities, which has been capitalised.

15 **Investment in a subsidiary**

HEC

	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$	*HK$*	*HK$*	*HK$*
Unlisted shares, at cost	8	8	8	8

Details of the subsidiary at 31 December 2010, 2011 and 2012 and 30 September 2013 are as follows:

Name of subsidiary	Issued share capital	Percentage of equity held	Place of incorporation/ operation	Principal activity
Hongkong Electric Finance Limited	US$1	100	British Virgin Islands/ Hong Kong	Financing

The subsidiary has no post-acquisition profits or losses attributable to HEC.

The details of the medium term notes issued by the subsidiary at 31 December 2010, 2011 and 2012 and 30 September 2013 are disclosed in note 19.

16 **Inventories**

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Coal	133,143	459,248	411,499	305,217
Fuel oil and natural gas	299,941	321,267	352,421	315,611
Stores and materials (see note below)	313,855	334,566	350,591	369,490
	746,939	1,115,081	1,114,511	990,318

Included in stores and materials is capital stock of HK$212,433,000, HK$220,620,000, HK$201,900,000 and HK$211,947,000 as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively which was purchased for future maintenance of capital assets.

17 Trade and other receivables

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors (see note (a) below)	637,503	637,313	689,727	979,389
Other receivables	420,232	414,069	457,336	658,608
	1,057,735	1,051,382	1,147,063	1,637,997
Derivative financial instruments				
- held as cash flow/fair value hedging instruments (see note 24)	45,769	15,862	250	1,725
Deposits and prepayments	14,508	10,822	35,596	29,246
	1,118,012	1,078,066	1,182,909	1,668,968

All of the trade and other receivables are expected to be recovered within one year.

As at 31 December 2010, 2011 and 2012 and 30 September 2013, other receivables included unbilled electricity charges of HK$369,675,000, HK$378,649,000, HK$404,254,000 and HK$586,105,000, respectively, to be received from electricity customers.

(a) *Ageing analysis*

The ageing analysis of trade debtors, based on the invoice date, that are neither individually nor collectively considered to be impaired is as follows:

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current and within 1 month	582,385	597,156	650,583	922,410
1 to 3 months	36,701	26,159	28,382	46,793
More than 3 months but less than 12 months	18,417	13,998	10,762	10,186
Total trade debtors	637,503	637,313	689,727	979,389

Electricity bills issued to domestic, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

Trade debtors for electricity charges that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. The Disposal Group and HEC obtain collateral in the form of security deposits or bank guarantees from customers (see note 29(a)) and the balances are considered to be fully recoverable.

(b) ***Impairment of trade and other receivables***

The Disposal Group's and HEC's trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses. During the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, impairment of trade and other receivables of HK$1,611,000, HK$1,599,000, HK$1,600,000, HK$1,124,000 (unaudited) and HK$929,000, respectively, was charged to profit or loss.

18 Fuel Clause Recovery Account

	The Disposal Group and HEC			
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	551,561	569,485	1,035,209	819,781
Transferred to profit or loss (see note 4)	2,794,745	3,754,956	3,867,255	2,519,656
Fuel Clause Charges during the year/period	(2,776,821)	(3,289,232)	(4,082,683)	(3,341,330)
At 31 December/30 September	569,485	1,035,209	819,781	(1,893)

The Fuel Clause Charges per unit for electricity sales was HK25.4 cents, HK30.2 cents, HK37.0 cents, HK37.0 cents (unaudited) and HK40.2 cents for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively.

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs (see note 1(r)(ii)).

The outstanding amount of Fuel Clause Recovery Account was neither past due nor impaired (see note 1(r)(ii)).

19 Medium term notes

The medium term notes ("the Notes") are bearer or registered notes at fixed interest rates issued under a US$1,000,000,000 medium term note programme entered into by the HEFL ("the issuer"), on 18 December 2002 (revised on 23 November 2004) with various financial institutions. The programme was expanded to US$2,000,000,000 on 25 July 2006 and further expanded to US$3,000,000,000 on 9 December 2011 in accordance with the terms of the programme. The Notes are unconditionally and irrevocably guaranteed by HEC.

Interest payments on the Notes will be made without deduction for or on account of taxes of the British Virgin Islands or the Hong Kong Special Administrative Region of the People's Republic of China.

The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands or the Hong Kong Special Administrative Region of the People's Republic of China.

Details and nominal value of the Notes issued are set out below:

	The Disposal Group			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(i) HK$500 million 4.13% p.a. medium term notes	500,000	500,000	500,000	500,000
Issued on 24 November 2004 at a fixed interest rate of 4.13%. Interest on these notes is payable quarterly in arrears on 24 February, 24 May, 24 August and 24 November in each year. These notes will mature on 24 November 2014.				
(ii) HK$500 million 4.15% p.a. medium term notes	500,000	500,000	500,000	500,000
Issued on 13 May 2005 at a fixed interest rate of 4.15%. Interest on these notes is payable quarterly in arrears on 13 February, 13 May, 13 August and 13 November in each year. These notes will mature on 13 May 2015.				

	The Disposal Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(iii) HK$500 million 4.55% p.a. medium term notes	500,000	500,000	500,000	500,000
Issued on 6 November 2006 at a fixed interest rate of 4.55%. Interest on these notes is payable quarterly in arrears on 6 February, 6 May, 6 August and 6 November in each year. These notes will mature on 7 November 2016.				
(iv) HK$400 million 4.32% p.a. medium term notes	400,000	400,000	400,000	400,000
Issued on 7 December 2006 at a fixed interest rate of 4.32%. Interest on these notes is payable quarterly in arrears on 7 March, 7 June, 7 September and 7 December in each year. These notes will mature on 7 December 2016.				
(v) HK$500 million 4.32% p.a. medium term notes	500,000	500,000	—	—
Issued on 24 January 2007 at a fixed interest rate of 4.32%. Interest on these notes is payable quarterly in arrears on 24 January, 24 April, 24 July and 24 October in each year. These notes matured on 24 January 2012.				
(vi) HK$330 million 3.28% p.a. medium term notes	330,000	330,000	330,000	330,000
Issued on 23 April 2009 at a fixed interest rate of 3.28%. Interest on these notes is payable annually in arrears on 23 April in each year. These notes will mature on 23 April 2019.				

	The Disposal Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(vii) HK$300 million 3.70% p.a. medium term notes	300,000	300,000	300,000	300,000
Issued on 29 September 2009 at a fixed interest rate of 3.70%. Interest on these notes is payable quarterly in arrears on 29 March, 29 June, 29 September and 29 December in each year. These notes will mature on 30 September 2024.				
(viii) HK$470 million 3.95% p.a. medium term notes	470,000	470,000	470,000	470,000
Issued on 10 May 2010 at a fixed interest rate of 3.95%. Interest on these notes is payable quarterly in arrears on 10 February, 10 May, 10 August and 10 November in each year. These notes will mature on 10 May 2030.				
(ix) HK$300 million 3.38% p.a. medium term notes	300,000	300,000	300,000	300,000
Issued on 20 August 2010 at a fixed interest rate of 3.38%. Interest on these notes is payable quarterly in arrears on 20 February, 20 May, 20 August and 20 November in each year. These notes will mature on 20 August 2025.				
(x) US$750 million (2010: US$500 million) 4.25% p.a. medium term notes	3,889,250	5,836,725	5,812,500	5,818,500
Issued on 14 December 2010 at a fixed interest rate of 4.25%. Interest on these notes is payable semi-annually in arrears on 14 June, 14 December in each year. These notes will mature on 14 December 2020.				

	The Disposal Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(xi) HK$110 million 4.00% p.a. medium term notes	—	110,000	110,000	110,000
Issued on 15 April 2011 at a fixed interest rate of 4.00%. Interest on these notes is payable annually in arrears on 15 April in each year. These notes will mature on 15 April 2031.				
(xii) HK$300 million 3.84% p.a. medium term notes	—	300,000	300,000	300,000
Issued on 27 June 2011 at a fixed interest rate of 3.84%. Interest on these notes is payable quarterly in arrears on 27 March, 27 June, 27 September and 27 December in each year. These notes will mature on 27 June 2029.				
(xiii) HK$300 million 3.40% p.a. medium term notes	—	300,000	300,000	300,000
Issued on 19 December 2011 at a fixed interest rate of 3.40%. Interest on these notes is payable quarterly in arrears on 19 March, 19 June, 19 September and 19 December in each year. These notes will mature on 19 December 2023.				
(xiv) HK$500 million 3.40% p.a. medium term notes	—	—	500,000	500,000
Issued on 16 July 2012 at a fixed interest rate of 3.40%. Interest on these notes is payable quarterly in arrears on 16 January, 16 April, 16 July and 16 October in each year. These notes will mature on 16 July 2027.				

	The Disposal Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(xv) HK$300 million 1.65% p.a. medium term notes Issued on 20 September 2012 at a fixed interest rate of 1.65%. Interest on these notes is payable quarterly in arrears on 20 March, 20 June, 20 September and 20 December in each year. These notes will mature on 20 September 2017.	—	—	300,000	300,000
(xvi) HK$500 million 3.10% p.a. medium term notes Issued on 28 March 2013 at a fixed interest rate of 3.10%. Interest on these notes is payable quarterly in arrears on 28 March, 28 June, 28 September and 28 December in each year. These notes will mature on 28 March 2028.	—	—	—	500,000
(xvii) HK$200 million 3.00% p.a. medium term notes Issued on 16 May 2013 at a fixed interest rate of 3.00%. Interest on these notes is payable annually in arrears on 16 May in each year. These notes will mature on 16 May 2028.	—	—	—	200,000
	7,689,250	10,346,725	10,622,500	11,328,500

20 **Loans from ultimate holding company/a subsidiary and amounts due from/to fellow subsidiaries and a subsidiary**

(a) ***Loan from ultimate holding company***

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loan from ultimate holding company	13,190,218	11,533,462	10,723,660	13,265,879

The loan from ultimate holding company, PAH, is unsecured, interest-free and has no fixed terms of repayment but is not expected to be repaid within twelve months of the balance sheet date. However, if the proposed listing of the share stapled units to be issued by HK Electric Investments and HK Electric Investments Limited (the "Share Stapled Units") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing") proceeds as anticipated, the loan from ultimate holding company is expected to be repaid on or before the fifth business day following the date of the Listing.

(b) ***Loan from a subsidiary***

	HEC			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current portion				
Loan from a subsidiary	—	501,847	—	—
Non-current portion				
Loan from a subsidiary	7,542,595	10,161,423	11,169,265	11,518,566
	7,542,595	10,663,270	11,169,265	11,518,566

The loan from a subsidiary is unsecured, interest-bearing at rates representing the cost of funds to the subsidiary and is repayable on the maturity of the subsidiary's external financing arrangements as disclosed in note 25.

(c) ***Amounts due from/to fellow subsidiaries and a subsidiary***

The amounts due from/to fellow subsidiaries and a subsidiary are unsecured, interest-free and repayable on demand.

21 Bank loans

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unsecured bank loans	5,043,988	5,111,238	5,310,488	2,292,000
Current portion	(50,000)	(115,000)	(5,310,488)	(792,000)
Non-current portion	4,993,988	4,996,238	—	1,500,000

Some banking facilities of the Disposal Group and HEC are subject to the fulfilment of covenants relating to certain of the Disposal Group and HEC's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Disposal Group and HEC were to breach the covenants, the drawn down facilities would become payable on demand. The Disposal Group and HEC regularly monitors its compliance with these covenants. Further details of the Disposal Group's and HEC's management of liquidity risk are set out in note 29(b). As at 31 December 2010, 2011 and 2012 and 30 September 2013, none of the covenants relating to drawn down facilities had been breached.

22 Trade and other payables

	The Disposal Group			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Creditors measured at amortised cost	1,535,883	2,515,108	2,259,771	1,829,999
Accrued interest on medium term notes	33,010	40,901	40,495	100,935
Derivative financial instruments				
- held as cash flow/fair value hedging instruments (see note 24)	471	3,883	10,138	312
	1,569,364	2,559,892	2,310,404	1,931,246

	HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Creditors measured at amortised cost	1,535,883	2,515,108	2,259,771	1,829,999
Derivative financial instruments				
- held as cash flow/fair value hedging instruments (see note 24)	471	3,883	10,138	312
	1,536,354	2,518,991	2,269,909	1,830,311

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

Included in trade and other payables are creditors with the following ageing analysis as at the balance sheet date:

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due within 1 month or on demand	517,517	980,938	798,157	552,435
Due after 1 month but within 3 months	403,324	424,479	349,618	191,816
Due after 3 months but within 12 months	615,042	1,109,691	1,111,996	1,085,748
	1,535,883	2,515,108	2,259,771	1,829,999

23 **Income tax in the balance sheets**

(a) ***Current taxation in the balance sheets represents***

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Provision for Hong Kong Profits Tax for the year/period	797,000	625,111	817,318	744,927
Provisional Profits Tax paid	(640,335)	(515,948)	(487,313)	(162,437)
Provision for Hong Kong Profits Tax for the previous years	—	109,071	—	330,005
	156,665	218,234	330,005	912,495

(b) ***Deferred tax liabilities/(assets) recognised***

The Disposal Group and HEC

The components of deferred tax liabilities/(assets) recognised in the balance sheets and the movements during the Relevant Periods are as follows:

	Depreciation allowances in excess of the related depreciation	**Fuel Clause Recovery account**	**Defined benefit retirement schemes**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	5,538,180	91,008	—	(7,505)	5,621,683
Charged to profit or loss	135,096	2,957	—	91	138,144
Charged to other comprehensive income	—	—	—	2,673	2,673
At 31 December 2010	5,673,276	93,965	—	(4,741)	5,762,500
At 1 January 2011	5,673,276	93,965	—	(4,741)	5,762,500
Charged/(credited) to profit or loss	173,283	76,844	13,844	(227)	263,744
Credited to other comprehensive income	—	—	(141,276)	(2,339)	(143,615)
At 31 December 2011	5,846,559	170,809	(127,432)	(7,307)	5,882,629
At 1 January 2012	5,846,559	170,809	(127,432)	(7,307)	5,882,629
Charged/(credited) to profit or loss	119,726	(35,545)	74,125	(263)	158,043
(Credited)/charged to other comprehensive income	—	—	(130,778)	1,389	(129,389)
At 31 December 2012	5,966,285	135,264	(184,085)	(6,181)	5,911,283
At 1 January 2013	5,966,285	135,264	(184,085)	(6,181)	5,911,283
Charged/(credited) to profit or loss	24,702	(113,102)	4,208	—	(84,192)
Charged to other comprehensive income	—	—	114,489	2,121	116,610
At 30 September 2013	5,990,987	22,162	(65,388)	(4,060)	5,943,701

The Disposal Group and HEC had no material unprovided deferred tax assets or liabilities as at 31 December 2010, 2011 and 2012 and 30 September 2013.

24 Derivative financial instruments

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Derivative financial instruments used for hedging:				
- Cross currency swaps	(122,436)	422,518	645,367	299,620
- Interest rate swaps	11,304	1,381	—	—
- Forward foreign exchange contracts	45,298	10,598	(9,888)	1,421
Total	(65,834)	434,497	635,479	301,041
Current portion of derivative financial instruments (see notes 17 and 22)	(45,298)	(11,979)	9,888	(1,413)
	(111,132)	422,518	645,367	299,628
Represented by:				
Derivative financial instruments assets	20,646	432,537	645,669	299,628
Derivative financial instruments liabilities	(131,778)	(10,019)	(302)	—
	(111,132)	422,518	645,367	299,628

25 Debt profile

The Disposal Group

	At 31 December 2010		
	Bank loans and bank overdrafts	Medium term notes	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	51,685	—	51,685
Repayable after 1 year but within 2 years	—	520,646	520,646
Repayable after 2 years but within 5 years	4,993,988	998,880	5,992,868
Repayable after 5 years	—	6,023,069	6,023,069
	5,045,673	7,542,595	12,588,268

	At 31 December 2011		
	Bank loans and bank overdrafts	Medium term notes	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	115,000	501,847	616,847
Repayable after 1 year but within 2 years	4,996,238	—	4,996,238
Repayable after 2 years but within 5 years	—	1,897,890	1,897,890
Repayable after 5 years	—	8,263,533	8,263,533
	5,111,238	10,663,270	15,774,508

	At 31 December 2012		
	Bank loans and bank overdrafts	Medium term notes	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	5,316,419	—	5,316,419
Repayable after 1 year but within 2 years	—	499,843	499,843
Repayable after 2 years but within 5 years	—	1,697,959	1,697,959
Repayable after 5 years	—	8,971,463	8,971,463
	5,316,419	11,169,265	16,485,684

	At 30 September 2013		
	Bank loans and bank overdrafts	Medium term notes	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	798,022	—	798,022
Repayable after 1 year but within 2 years	1,500,000	999,610	2,499,610
Repayable after 2 years but within 5 years	—	1,198,681	1,198,681
Repayable after 5 years	—	9,320,275	9,320,275
	2,298,022	11,518,566	13,816,588

HEC

	At 31 December 2010		
	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	51,685	—	51,685
Repayable after 1 year but within 2 years	—	520,646	520,646
Repayable after 2 years but within 5 years	4,993,988	998,880	5,992,868
Repayable after 5 years	—	6,023,069	6,023,069
	5,045,673	7,542,595	12,588,268

	At 31 December 2011		
	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	115,000	501,847	616,847
Repayable after 1 year but within 2 years	4,996,238	—	4,996,238
Repayable after 2 years but within 5 years	—	1,897,890	1,897,890
Repayable after 5 years	—	8,263,533	8,263,533
	5,111,238	10,663,270	15,774,508

	At 31 December 2012		
	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	5,316,419	—	5,316,419
Repayable after 1 year but within 2 years	—	499,843	499,843
Repayable after 2 years but within 5 years	—	1,697,959	1,697,959
Repayable after 5 years	—	8,971,463	8,971,463
	5,316,419	11,169,265	16,485,684

	At 30 September 2013		
	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 1 year	798,022	—	798,022
Repayable after 1 year but within 2 years	1,500,000	999,610	2,499,610
Repayable after 2 years but within 5 years	—	1,198,681	1,198,681
Repayable after 5 years	—	9,320,275	9,320,275
	2,298,022	11,518,566	13,816,588

The loan from PAH and the loan capital from PAH as disclosed in notes 20(a) and 28(c), respectively, have no fixed repayment terms and are expected to be repaid on or before the fifth business day following the date of the Listing.

26 Employee retirement benefits

The Disposal Group offers three retirement schemes which together cover all permanent staff.

One of the schemes ("the Pension Scheme") provides pension benefits based on the employee's final basic salary and length of service. This scheme is accounted for as a defined benefit retirement scheme.

Another scheme is defined contribution in nature and offers its members choices to invest in various investment funds. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund ("the Guaranteed Return Scheme"). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme.

Both these schemes are established under trust and are registered under the Hong Kong Occupational Retirement Schemes Ordinance. The assets of the schemes are held independently of the Disposal Group's assets in separate trustee administered funds.

The Disposal Group also participates in a master trust Mandatory Provident Fund Scheme ("MPF Scheme") operated by an independent service provider under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The MPF Scheme is a defined contribution retirement scheme with the employer and its employees each contributing to the plan in accordance with the relevant scheme rules. The MPF Scheme rules provide for voluntary contributions to be made by the employer calculated as a percentage of the employees' basic salaries.

(a) ***Defined benefit retirement schemes ("the Schemes")***

Both defined benefit retirement schemes expose the Disposal Group to investment risk, interest rate risk and salary risk while the Pension Scheme also exposes the Disposal Group to the risks of longevity and inflation.

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include a long term yield gap, which is the long term expected rate of investment return net of salary increases of 0.3% per annum, pension increases of 2.5% per annum, together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 1 January 2013. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

The retirement scheme expense/income recognised in profit or loss for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 were determined in accordance with HKAS 19 (2011), *Employee benefits*.

(i) The amounts recognised in the balance sheets are as follows:

	The Disposal Group and HEC			
	At 31 December			**At 30 September**
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Present value of defined benefit obligations	3,888,981	4,525,763	4,686,065	4,009,033
Fair value of plan assets of the Schemes	(4,098,171)	(3,970,187)	(4,080,701)	(4,066,159)
	(209,190)	555,576	605,364	(57,126)
Represented by:				
Employee retirement benefit scheme assets	(796,397)	(271,233)	(215,721)	(470,461)
Employee retirement benefit scheme liabilities	587,207	826,809	821,085	413,335
	(209,190)	555,576	605,364	(57,126)

A portion of the above asset/liability is expected to be realised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) Movements in the present value of the defined benefit obligations of the Schemes are as follows:

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	4,419,433	3,888,981	4,525,763	4,686,065
Current service cost	84,521	73,613	99,251	77,717
Interest cost	109,740	115,253	66,710	27,763
Employee contributions paid to the Schemes	14,171	16,409	16,763	12,524
Actuarial (gains)/losses due to:				
- Liability experience	(43,005)	27,501	13,039	61,406
- Financial assumption changes	(332,724)	693,338	249,174	(707,855)
Inter-company transfers of employees	12,341	—	1,272	—
Benefits paid	(375,496)	(289,332)	(285,907)	(148,587)
At 31 December/30 September	3,888,981	4,525,763	4,686,065	4,009,033

(iii) Movements in the fair value of the plan assets of the Schemes are as follows:

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	4,153,323	4,098,171	3,970,187	4,080,701
Interest income on the Schemes' assets	—	—	—	24,434
Return on Schemes' assets excluding interest income	—	—	—	47,425
Expected return on the Schemes' assets	219,353	214,160	173,769	—
Actuarial gains/(losses)	11,215	(135,380)	137,681	—
Inter-company transfers of employees	15,385	—	1,272	—
Employer contributions paid to the Schemes	60,220	66,159	66,936	49,662
Employee contributions paid to the Schemes	14,171	16,409	16,763	12,524
Benefits paid	(375,496)	(289,332)	(285,907)	(148,587)
At 31 December/30 September	4,098,171	3,970,187	4,080,701	4,066,159

(iv) The income/expense recognised in the consolidated statement of profit or loss, prior to any capitalisation of employment costs attributable to fixed assets additions, is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Current service cost	84,521	73,613	99,251	74,438	77,717
Interest cost	109,740	115,253	66,710	50,033	—
Expected return on assets of the Schemes	(219,353)	(214,160)	(173,769)	(130,327)	—
Net interest on net defined benefit liability	—	—	—	—	3,329
	(25,092)	(25,294)	(7,808)	(5,856)	81,046

The income/expense is recognised in the following line items in the consolidated statement of profit or loss:

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Direct costs	(21,006)	(19,939)	(6,203)	(4,636)	56,086
Other operating costs	(4,086)	(5,355)	(1,605)	(1,220)	24,960
	(25,092)	(25,294)	(7,808)	(5,856)	81,046

(v) The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income is as follows:

	The Disposal Group and HEC			
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	1,048,823	668,059	1,524,278	1,648,810
Remeasurement of net defined benefit obligations recognised in the consolidated statement of comprehensive income during the year/period	(380,764)	856,219	124,532	(693,874)
At 31 December/30 September	668,059	1,524,278	1,648,810	954,936

The Disposal Group regularly monitors the investment strategy of the Schemes by reviewing the movement of capital markets and economic outlook.

(vi) The plan assets of the Schemes comprise:

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong equities	244,205	216,375	337,391	340,215
European equities	174,979	109,007	175,136	253,037
North American equities	296,502	306,740	386,322	523,577
Other Asia Pacific equities	135,065	117,380	180,376	183,819
Global bonds	3,160,915	2,805,371	2,753,963	2,675,576
Deposits, cash and others	86,505	415,314	247,513	89,935
At 31 December/30 September	4,098,171	3,970,187	4,080,701	4,066,159

(vii) The principal actuarial assumptions used at the balance sheet dates (expressed as a weighted average) are as follows:

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
Discount rate	3.00%	1.50%	0.80%	2.30%
Long term salary increase rate	5.00%	5.00%	5.00%	5.00%
Future pension increase rate.	2.50%	2.50%	2.50%	2.50%

(viii) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, while holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

(1) The Pension Scheme

The Disposal Group and HEC

	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Actuarial assumptions	**Effect on defined benefit obligation**			
Discount rate				
- increase by 0.25%	(43,574)	(62,860)	(73,942)	(51,270)
- decrease by 0.25%	46,080	66,710	78,574	54,179
Pension increase rate				
- increase by 0.25%	39,102	56,680	67,289	49,244
- decrease by 0.25%	(37,343)	(53,982)	(64,010)	(46,999)
Mortality rate applied to a specific age				
- set forward one year	(42,958)	(66,449)	(81,594)	(57,144)
- set backward one year	43,330	67,806	83,742	57,993

(2) The Guaranteed Return Scheme

The Disposal Group and HEC

	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Actuarial assumptions	**Effect on defined benefit obligation**			
Discount rate				
- increase by 0.25%	(60,359)	(65,875)	(62,764)	(49,039)
- decrease by 0.25%	62,496	68,241	64,967	50,625
Interest to be credited				
- increase by 0.25%	62,038	66,737	63,400	54,907
- decrease by 0.25%	(60,214)	(64,775)	(61,591)	(53,405)

(ix) The following table sets out the weighted average durations of the defined benefit obligations of the Schemes:

	The Disposal Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
The Pension Scheme	15.1 Years	16.3 Years	16.6 Years	14.7 Years
The Guaranteed Return Scheme	9.4 Years	9.3 Years	9.0 Years	7.9 Years

The Disposal Group and HEC expect to contribute HK$71,592,000 to the defined benefit retirement schemes for the period from 1 October 2013 to 30 September 2014.

(b) ***Defined contribution retirement schemes***

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Expenses recognised in profit or loss	29,199	24,967	26,320	19,671	21,227

Forfeited contributions of HK$2,203,000, HK$4,111,000, HK$238,000, HK$238,000 (unaudited) and HK$548,000 have been received during the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively.

27 **Reconciliation of profit before taxation to cash generated from operations**

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Profit before taxation	5,614,734	5,323,359	5,362,037	4,304,794	3,989,400
Adjustments for:					
Net financial instrument revaluation and exchange loss/(gain)	5,728	(963)	673	9	(186)
Finance costs	112,857	249,160	264,910	190,559	214,626
Interest transferred to fuel costs	16,817	19,577	20,400	15,237	15,028
Interest income	(268)	(85)	(274)	(265)	(18)
Depreciation	1,736,005	1,779,414	1,862,207	1,373,382	1,441,132
Amortisation of leasehold land	58,030	58,061	58,192	43,801	43,866
Net loss on disposal of fixed assets and fixed assets written off	42,854	38,222	46,662	14,371	11,930
Changes in working capital:					
Decrease/(increase) in inventories	206,035	(359,955)	(18,150)	234,901	134,241
Increase/decrease in net employee retirement benefit scheme assets/liabilities	(94,536)	(91,453)	(74,744)	(56,368)	31,384
(Increase)/decrease in trade and other receivables	(39,400)	10,849	(99,813)	(475,593)	(431,205)
Increase/(decrease) in trade and other payables	11,768	763,125	(24,173)	(49,010)	55,285
(Increase)/decrease in amounts due from fellow subsidiaries	(1,192)	(3,861)	123	(361)	(28)
Increase/(decrease) in amount due to a fellow subsidiary	9,915	—	(10,225)	—	—
Movement in Fuel Clause Recovery Account	(17,924)	(465,724)	215,428	207,984	821,674
Cash generated from operations	7,661,423	7,319,726	7,603,253	5,803,441	6,327,129

28 Capital and reserves

(a) *Movements in components of equity*

The reconciliation between the opening and closing balances of each component of the Disposal Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in HEC's individual components of equity between the beginning and the end of the year/period are set out below:

HEC

	Attributable to the equity shareholders of HEC					
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	Total
	(note 28(b))	(note 28(d))		(note 13)	(note 28(c))	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2010	2,411,600	(5,379)	5,379	4,196,091	8,845,000	15,452,691
Changes in equity for 2010:						
Profit attributable to the equity shareholders	—	—	4,619,529	—	—	4,619,529
Other comprehensive income	—	13,525	380,764	—	—	394,289
Total comprehensive income for the year	—	13,525	5,000,293	—	—	5,013,818
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(4,196,091)	—	(4,196,091)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(3,682,672)	3,682,672	—	—
Balance at 31 December 2010	2,411,600	8,146	—	3,682,672	8,845,000	14,947,418

	Attributable to the equity shareholders of HEC					
	Share capital	**Hedging reserve**	**Revenue reserve**	**Proposed/ declared dividend**	**Loan capital**	**Total**
	(note 28(b))	**(note 28(d))**		**(note 13)**	**(note 28(c))**	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2011	2,411,600	8,146	—	3,682,672	8,845,000	14,947,418
Changes in equity for 2011:						
Profit attributable to the equity shareholders	—	—	4,479,535	—	—	4,479,535
Other comprehensive income	—	(11,836)	(714,943)	—	—	(726,779)
Total comprehensive income for the year	—	(11,836)	3,764,592	—	—	3,752,756
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(3,682,672)	—	(3,682,672)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(2,437,902)	2,437,902	—	—
Balance at 31 December 2011	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
Balance at 1 January 2012	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
Changes in equity for 2012:						
Profit attributable to the equity shareholders	—	—	4,541,678	—	—	4,541,678
Other comprehensive income	—	7,027	6,246	—	—	13,273
Total comprehensive income for the year	—	7,027	4,547,924	—	—	4,554,951
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(3,228,614)	3,228,614	—	—
Balance at 31 December 2012	2,411,600	3,337	—	3,228,614	8,845,000	14,488,551

	Attributable to the equity shareholders of HEC					
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	Total
	(note 28(b))	(note 28(d))		(note 13)	(note 28(c))	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2013	2,411,600	3,337	—	3,228,614	8,845,000	14,488,551
Changes in equity for the nine months ended 30 September 2013:						
Profit attributable to the equity shareholders	—	—	3,563,312	—	—	3,563,312
Other comprehensive income	—	10,734	579,385	—	—	590,119
Total comprehensive income for the period	—	10,734	4,142,697	—	—	4,153,431
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(3,228,614)	—	(3,228,614)
Interim dividend paid (see note 13(a))	—	—	(1,387,000)	—	—	(1,387,000)
Balance at 30 September 2013	2,411,600	14,071	2,755,697	—	8,845,000	14,026,368
Unaudited						
Balance at 1 January 2012	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
Changes in equity for the nine months ended 30 September 2012:						
Profit attributable to the equity shareholders	—	—	3,436,141	—	—	3,436,141
Other comprehensive income	—	42,522	(192,210)	—	—	(149,688)
Total comprehensive income for the period	—	42,522	3,243,931	—	—	3,286,453
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Balance at 30 September 2012	2,411,600	38,832	1,924,621	—	8,845,000	13,220,053

(b) ***Share capital***

	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised, issued and fully paid:				
1,205,800,000 ordinary shares of $2 each	2,411,600	2,411,600	2,411,600	2,411,600

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of HEC. All shares rank equally with regard to HEC's residual assets.

(c) ***Loan capital***

	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance brought forward and carried forward	8,845,000	8,845,000	8,845,000	8,845,000

Loan capital represents an investment of funds received from the ultimate holding company, PAH, as a shareholder's investment. The loan capital is expected to be repaid on or before the fifth business day following the date of the Listing.

(d) ***Nature and purpose of the hedging reserve***

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as set out in note 1(q).

(e) ***Distributability of reserves***

As at 31 December 2010, 2011 and 2012 and 30 September 2013, the aggregate amount of reserves available for distribution to the equity shareholders of HEC, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance was HK$3,682,672,000, HK$2,441,592,000, HK$3,228,614,000 and HK$2,755,697,000, respectively. The distributable reserves excluding any actuarial gains in relation to remeasurement of net defined benefit obligations at the date of completion of the Disposal are expected to be distributed to PAH.

(f) ***Capital management***

The Disposal Group's primary objectives when managing capital are:

— to safeguard the Disposal Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;

— to provide returns to shareholders by securing access to finance at a reasonable cost;

— to support the Disposal Group's stability and future growth; and

— to provide capital for the purpose of strengthening the Disposal Group's risk management capability.

The Disposal Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Disposal Group and capital efficiency, forecast profitability, forecast operating cash flows and forecast capital expenditure and projected investment opportunities.

The Disposal Group's strategy is to control its level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Disposal Group may adjust the amount of dividends paid to the holding company, issue new shares, return capital to the holding company, raise new debt financing or sell assets to reduce debt.

The gearing ratio of the Disposal Group and HEC at 31 December 2010, 2011 and 2012 and 30 September 2013 was as follows:

	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total interest-bearing borrowings	12,588,268	15,774,508	16,485,684	13,816,588
Total assets	51,238,173	52,809,553	53,337,298	52,385,070
Gearing ratio	24.6%	29.9%	30.9%	26.4%

Total interest-bearing borrowings of the Disposal Group as at 31 December 2010, 2011 and 2012 and 30 September 2013 include bank loans, bank overdrafts and medium term notes as shown on the consolidated balance sheets.

Total interest-bearing borrowings of HEC as at 31 December 2010, 2011 and 2012 and 30 September 2013 include bank loans, bank overdrafts and loan from a subsidiary as shown on the balance sheets of HEC.

As at 31 December 2010, 2011 and 2012 and 30 September 2013, HEC acted as the guarantor in respect of certain loan facilities granted to its subsidiary of HK$7,689,250,000, HK$10,346,725,000, HK$10,622,500,000 and HK$11,328,500,000 and fully complied with the capital requirements under the loan facility agreements.

29 Financial risk management and fair values

The Disposal Group is exposed to credit, liquidity, interest rate and currency risks in the normal course of its business. In accordance with the Disposal Group's treasury policy, derivative financial instruments are only used to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Disposal Group does not hold or issue derivative financial instruments for trading or speculative purposes.

(a) ***Credit risk***

The Disposal Group's and HEC's credit risk is primarily attributable to trade and other receivables relating to electricity customers, bank deposits and over-the-counter derivative financial instruments entered into for hedging purposes. The Disposal Group and HEC have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, the Disposal Group and HEC obtain collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules of HEC. At 31 December 2010, 2011 and 2012 and 30 September 2013, the security deposits held by the Disposal Group and HEC totalled HK$1,747,607,000, HK$1,801,353,000, HK$1,838,963,000 and HK$1,880,851,000, respectively.

The Disposal Group and HEC have a defined minimum credit rating requirement and transaction limit for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. The Disposal Group and HEC do not expect any counterparty to fail to meet its obligations.

The Disposal Group and HEC have no significant concentrations of credit risk in respect of trade and other receivables relating to electricity customers, as the five largest customers combined did not exceed 30% of the Disposal Group's and HEC's total turnover.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheets.

Except for the financial guarantees given by HEC as set out in note 31, the Disposal Group and HEC have not provided any other guarantee which would expose the Disposal Group and HEC to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 31.

Further quantitative disclosures in respect of the Disposal Group's and HEC's exposure to credit risk arising from trade and other receivables are set out in note 17.

(b) ***Liquidity risk***

The Disposal Group and HEC operate a central cash management system for its fellow subsidiaries in order to achieve a better control of risk and minimise the costs of funds. The Disposal Group's and HEC's policy is to regularly monitor current and expected liquidity requirements and their compliance with loan covenants to ensure that they maintain sufficient reserves of cash and adequate committed lines of funding to meet their liquidity requirements in the short and longer term. The Disposal Group and HEC had undrawn committed bank facilities of HK$6,500,000,000, HK$6,500,000,000, HK$5,540,000,000 and HK$3,770,000,000 at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively.

The following tables show the remaining contractual maturities at the balance sheet date of the Disposal Group's and HEC's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Disposal Group and HEC can be required to pay.

The Disposal Group

	At 31 December 2010					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Medium term notes plus accrued interest	7,575,605	10,547,726	318,952	803,099	1,860,832	7,564,843
Bank loans plus accrued interest	5,047,580	5,123,400	76,047	26,244	5,021,109	—
Bank overdrafts	1,685	1,685	1,685	—	—	—
Creditors and accrued charges	1,526,791	1,526,791	1,526,791	—	—	—
Interest rate swaps (net settled) and related interest accruals	(12,908)	(13,033)	(10,437)	(2,596)	—	—
Cross currency swaps and related interest accruals	117,593					
- outflow		691,484	69,163	69,272	207,252	345,797
- inflow		(1,652,931)	(165,293)	(165,293)	(495,880)	(826,465)
	14,256,346	16,225,122	1,816,908	730,726	6,593,313	7,084,175
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	(27,050)					
- outflow		2,252,324	2,185,930	66,394	—	—
- inflow		(2,279,735)	(2,209,699)	(70,036)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	(18,248)					
- outflow		365,994	362,455	3,539	—	—
- inflow		(383,747)	(380,033)	(3,714)	—	—

	At 31 December 2011					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Medium term notes plus accrued interest	10,704,171	14,043,370	912,238	406,240	3,046,472	9,678,420
Bank loans plus accrued interest	5,115,108	5,171,022	145,429	5,025,593	—	—
Creditors and accrued charges	2,503,419	2,503,419	2,503,419	—	—	—
Interest rate swaps (net settled) and related interest accruals	(2,987)	(2,794)	(2,794)	—	—	—
Cross currency swaps and related interest accruals	(429,248)					
- outflow		1,051,209	116,637	116,742	350,544	467,286
- inflow		(2,232,547)	(248,061)	(248,061)	(744,181)	(992,244)
	17,890,463	20,533,679	3,426,868	5,300,514	2,652,835	9,153,462
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	(6,964)					
- outflow		3,105,687	3,039,856	65,831	—	—
- inflow		(3,112,065)	(3,047,844)	(64,221)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	(3,634)					
- outflow		349,157	349,157	—	—	—
- inflow		(352,605)	(352,605)	—	—	—

	At 31 December 2012					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Medium term notes plus accrued interest	11,209,760	14,173,036	427,161	927,036	2,826,748	9,992,091
Bank loans plus accrued interest	5,315,114	5,338,286	5,338,286	—	—	—
Bank overdrafts	5,931	5,931	5,931	—	—	—
Creditors and accrued charges	2,249,350	2,249,350	2,249,350	—	—	—
Cross currency swaps and related interest accruals	(651,923)					
- outflow		940,802	117,522	117,520	352,880	352,880
- inflow		(1,976,250)	(247,033)	(247,033)	(741,092)	(741,092)
	18,128,232	20,731,155	7,891,217	797,523	2,438,536	9,603,879
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	6,352					
- outflow		5,741,683	3,498,636	2,243,047	—	—
- inflow		(5,737,349)	(3,493,724)	(2,243,625)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	3,536					
- outflow		174,456	174,456	—	—	—
- inflow		(170,921)	(170,921)	—	—	—

	At 30 September 2013					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Medium term notes plus accrued interest	11,619,501	14,932,596	448,794	1,428,007	2,347,622	10,708,173
Bank loans plus accrued interest	2,293,149	2,330,726	813,399	1,517,327	—	—
Bank overdrafts	6,022	6,022	6,022	—	—	—
Creditors and accrued charges	1,824,043	1,824,043	1,824,043	—	—	—
Cross currency swaps and related interest accruals	(369,333)					
- outflow		848,063	116,985	116,985	351,277	262,816
- inflow		(1,853,735)	(247,164)	(247,164)	(741,495)	(617,912)
	15,373,382	18,087,715	2,962,079	2,815,155	1,957,404	10,353,077
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	(1,381)					
- outflow		4,214,756	3,157,533	1,057,223	—	—
- inflow		(4,216,756)	(3,159,165)	(1,057,591)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	(40)					
- outflow		181,574	181,574	—	—	—
- inflow		(181,619)	(181,619)	—	—	—

HEC

	At 31 December 2010					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loan from a subsidiary plus accrued interest	7,575,605	10,547,726	318,952	803,099	1,860,832	7,564,843
Bank loans plus accrued interest	5,047,580	5,123,400	76,047	26,244	5,021,109	—
Bank overdrafts	1,685	1,685	1,685	—	—	—
Creditors and accrued charges	1,526,791	1,526,791	1,526,791	—	—	—
Interest rate swaps (net settled) and related interest accruals	(12,908)	(13,033)	(10,437)	(2,596)	—	—
Cross currency swaps and related interest accruals	117,593					
- outflow		691,484	69,163	69,272	207,252	345,797
- inflow		(1,652,931)	(165,293)	(165,293)	(495,880)	(826,465)
	14,256,346	16,225,122	1,816,908	730,726	6,593,313	7,084,175
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	(27,050)					
- outflow		2,252,324	2,185,930	66,394	—	—
- inflow		(2,279,735)	(2,209,699)	(70,036)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	(18,248)					
- outflow		365,994	362,455	3,539	—	—
- inflow		(383,747)	(380,033)	(3,714)	—	—

	At 31 December 2011					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loan from a subsidiary plus accrued interest	10,704,171	14,043,370	912,238	406,240	3,046,472	9,678,420
Bank loans plus accrued interest	5,115,108	5,171,022	145,429	5,025,593	—	—
Creditors and accrued charges	2,503,419	2,503,419	2,503,419	—	—	—
Interest rate swaps (net settled) and related interest accruals	(2,987)	(2,794)	(2,794)	—	—	—
Cross currency swaps and related interest accruals	(429,248)					
- outflow		1,051,209	116,637	116,742	350,544	467,286
- inflow		(2,232,547)	(248,061)	(248,061)	(744,181)	(992,244)
	17,890,463	20,533,679	3,426,868	5,300,514	2,652,835	9,153,462
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	(6,964)					
- outflow		3,105,687	3,039,856	65,831	—	—
- inflow		(3,112,065)	(3,047,844)	(64,221)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	(3,634)					
- outflow		349,157	349,157	—	—	—
- inflow		(352,605)	(352,605)	—	—	—

	At 31 December 2012					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loan from a subsidiary plus accrued interest	11,209,760	14,173,036	427,161	927,036	2,826,748	9,992,091
Bank loans plus accrued interest	5,315,114	5,338,286	5,338,286	—	—	—
Bank overdrafts	5,931	5,931	5,931	—	—	—
Creditors and accrued charges	2,249,350	2,249,350	2,249,350	—	—	—
Cross currency swaps and related interest accruals	(651,923)					
- outflow		940,802	117,522	117,520	352,880	352,880
- inflow		(1,976,250)	(247,033)	(247,033)	(741,092)	(741,092)
	18,128,232	20,731,155	7,891,217	797,523	2,438,536	9,603,879
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	6,352					
- outflow		5,741,683	3,498,636	2,243,047	—	—
- inflow		(5,737,349)	(3,493,724)	(2,243,625)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	3,536					
- outflow		174,456	174,456	—	—	—
- inflow		(170,921)	(170,921)	—	—	—

	At 30 September 2013					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loan from a subsidiary plus accrued interest	11,619,501	14,932,596	448,794	1,428,007	2,347,622	10,708,173
Bank loans plus accrued interest	2,293,149	2,330,726	813,399	1,517,327	—	—
Bank overdrafts	6,022	6,022	6,022	—	—	—
Creditors and accrued charges	1,824,043	1,824,043	1,824,043	—	—	—
Cross currency swaps and related interest accruals	(369,333)					
- outflow		848,063	116,985	116,985	351,277	262,816
- inflow		(1,853,735)	(247,164)	(247,164)	(741,495)	(617,912)
	15,373,382	18,087,715	2,962,079	2,815,155	1,957,404	10,353,077
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)):	(1,381)					
- outflow		4,214,756	3,157,533	1,057,223	—	—
- inflow		(4,216,756)	(3,159,165)	(1,057,591)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)):	(40)					
- outflow		181,574	181,574	—	—	—
- inflow		(181,619)	(181,619)	—	—	—

(c) ***Interest rate risk***

The Disposal Group and HEC are exposed to cash flow interest rate risk on its interest-bearing assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(i) *Hedging*

The Disposal Group's and HEC's policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Disposal Group and HEC also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the treasury policy.

At 31 December 2010, 2011 and 2012 and 30 September 2013, the Disposal Group and HEC had cross currency swaps with a total notional amount of HK$3,882,320,000, HK$5,826,020,000, HK$5,826,020,000 and HK$5,826,020,000, respectively and outstanding interest rate swaps of HK$750,000,000, HK$750,000,000, HK$Nil and HK$Nil, respectively.

The Disposal Group classifies cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 1(q).

The net fair value of cross currency swaps entered into by the Disposal Group and HEC at 31 December 2010, 2011 and 2012 and 30 September 2013 was HK$122,436,000 liability, HK$422,518,000 asset, HK$645,367,000 asset and HK$299,620,000 asset, respectively. The net fair value of interest rate swaps entered into by the Disposal Group and HEC at 31 December 2010, 2011 and 2012 and 30 September 2013 was a net asset of HK$11,304,000, HK$1,381,000, HK$Nil and HK$Nil, respectively. These amounts are recognised as derivative financial instruments assets/liabilities.

(ii) *Interest rate profile*

The following table details the interest rate profile of the Disposal Group's and HEC's net interest-bearing assets and liabilities at the balance sheet date, after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

The Disposal Group

	At 31 December						At 30 September	
	2010		2011		2012		2013	
	Effective interest rate %	*HK$'000*	*Effective interest rate %*	*HK$'000*	*Effective interest rate %*	*HK$'000*	*Effective interest rate %*	*HK$'000*
Net fixed rate liabilities:								
Medium term notes	3.99	(4,056,212)	3.95	(5,516,328)	3.80	(6,308,828)	3.73	(7,005,121)
Bank loans	4.31	(249,699)	4.31	(249,812)	—	—	—	—
		(4,305,911)		(5,766,140)		(6,308,828)		(7,005,121)
Net variable rate assets/(liabilities):								
Cash and bank balances	—*	8,728	—*	23,840	—*	7,649	—*	7,825
Medium term notes	1.18	(3,486,383)	1.16	(5,146,942)	1.31	(4,860,437)	1.30	(4,513,445)
Bank loans	0.51	(4,794,289)	0.54	(4,861,426)	0.63	(5,310,488)	1.04	(2,292,000)
Customers' deposits	—*	(1,747,607)	—*	(1,801,353)	—*	(1,838,963)	—*	(1,880,851)
Bank overdrafts	5.00	(1,685)	—	—	5.00	(5,931)	5.00	(6,022)
		(10,021,236)		(11,785,881)		(12,008,170)		(8,684,493)

HEC

	At 31 December						At 30 September	
	2010		2011		2012		2013	
	Effective interest rate %	*HK$'000*	*Effective interest rate %*	*HK$'000*	*Effective interest rate %*	*HK$'000*	*Effective interest rate %*	*HK$'000*
Net fixed rate liabilities:								
Loan from a subsidiary	3.99	(4,056,212)	3.95	(5,516,328)	3.80	(6,308,828)	3.73	(7,005,121)
Bank loans	4.31	(249,699)	4.31	(249,812)	—	—	—	—
		(4,305,911)		(5,766,140)		(6,308,828)		(7,005,121)
Net variable rate assets/(liabilities):								
Cash and bank balances	—*	8,728	—*	23,840	—*	7,649	—*	7,825
Loan from a subsidiary	1.18	(3,486,383)	1.16	(5,146,942)	1.31	(4,860,437)	1.30	(4,513,445)
Bank loans	0.51	(4,794,289)	0.54	(4,861,426)	0.63	(5,310,488)	1.04	(2,292,000)
Customers' deposits	—*	(1,747,607)	—*	(1,801,353)	—*	(1,838,963)	—*	(1,880,851)
Bank overdrafts	5.00	(1,685)	—	—	5.00	(5,931)	5.00	(6,022)
		(10,021,236)		(11,785,881)		(12,008,170)		(8,684,493)

* Less than 0.01%

(iii) *Sensitivity analysis*

At 31 December 2010, 2011 and 2012 and 30 September 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Disposal Group's profit after taxation and revenue reserve by approximately HK$67,245,000, HK$82,636,000, HK$80,217,000 and HK$60,690,000, respectively. Other components of equity would have increased/decreased by approximately HK$4,248,000, HK$1,700,000, HK$995,000 and HK$288,000, respectively in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date.

(d) ***Currency risk***

(i) *Committed and forecast transactions*

The Disposal Group and HEC are exposed to currency risk primarily through purchases that are denominated in a currency other than the functional currency of HEC. The currencies giving rise to this risk are primarily United States Dollars, Japanese Yen, Pounds Sterling and Euros.

The Disposal Group and HEC use forward foreign exchange contracts to manage its currency risk and classifies these as cash flow hedges. At 31 December 2010, 2011 and 2012 and 30 September 2013, the Disposal Group and HEC had forward foreign exchange contracts hedging committed and forecast transactions with a net fair value of HK$27,050,000 asset, HK$6,964,000 asset, HK$6,352,000 liability and HK$1,381,000 asset, respectively recognised as derivative financial instruments.

(ii) *Recognised assets and liabilities*

The net fair value of forward foreign exchange contracts used by the Disposal Group and HEC as economic hedges of monetary assets and liabilities in foreign currencies at 31 December 2010, 2011 and 2012 and 30 September 2013 was HK$18,248,000 asset, HK$3,634,000 asset, HK$3,536,000 liability and HK$40,000 asset, respectively, recognised as derivative financial instruments.

The Disposal Group's and HEC's borrowings are either hedged into Hong Kong dollars by way of cross currency swaps or are denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Disposal Group's and HEC's borrowings.

(iii) *Exposure to currency risk*

The following table details the Disposal Group's and HEC's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Disposal Group and HEC.

The Disposal Group

	At 31 December 2010			
’000	**USD**	**JPY**	**GBP**	**EUR**
Cash and bank balances	(5)	(5,799)	—	—
Trade and other payables	27,398	3,234,239	113	159
Medium term notes	500,000	—	—	—
Gross exposure arising from recognised assets and liabilities	527,393	3,228,440	113	159
Notional amounts of forward foreign exchange contracts used as economic hedges	(18,658)	(2,571,300)	—	—
Notional amounts of cross currency swaps	(500,000)	—	—	—
Net exposure arising from recognised assets and liabilities	8,735	657,140	113	159

	At 31 December 2011			
’000	**USD**	**JPY**	**GBP**	**EUR**
Cash and bank balances	(40)	(5,728)	—	—
Trade and other payables	80,311	2,312,941	1,235	1,086
Medium term notes	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities	830,271	2,307,213	1,235	1,086
Notional amounts of forward foreign exchange contracts used as economic hedges	(28,434)	(1,093,002)	(1,159)	(811)
Notional amounts of cross currency swaps	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities	51,837	1,214,211	76	275

	At 31 December 2012			
'000	USD	JPY	GBP	EUR
Cash and bank balances	(80)	(45)	(6)	(1)
Trade and other payables	67,689	826,742	870	1,245
Medium term notes	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities	817,609	826,697	864	1,244
Notional amounts of forward foreign exchange contracts used as economic hedges	(13,331)	(622,019)	(555)	(313)
Notional amounts of cross currency swaps	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities	54,278	204,678	309	931

	At 30 September 2013			
'000	USD	JPY	GBP	EUR
Cash and bank balances	(83)	(1)	(20)	(6)
Trade and other payables	65,703	356,033	575	138
Medium term notes	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities	815,620	356,032	555	132
Notional amounts of forward foreign exchange contracts used as economic hedges	(22,005)	(132,079)	(53)	—
Notional amounts of cross currency swaps	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities	43,615	223,953	502	132

HEC

	At 31 December 2010			
’000	**USD**	**JPY**	**GBP**	**EUR**
Cash and bank balances	(5)	(5,799)	—	—
Trade and other payables	27,398	3,234,239	113	159
Loan from a subsidiary	500,000	—	—	—
Gross exposure arising from recognised assets and liabilities	527,393	3,228,440	113	159
Notional amounts of forward foreign exchange contracts used as economic hedges	(18,658)	(2,571,300)	—	—
Notional amounts of cross currency swaps	(500,000)	—	—	—
Net exposure arising from recognised assets and liabilities	8,735	657,140	113	159

	At 31 December 2011			
’000	**USD**	**JPY**	**GBP**	**EUR**
Cash and bank balances	(40)	(5,728)	—	—
Trade and other payables	80,311	2,312,941	1,235	1,086
Loan from a subsidiary	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities	830,271	2,307,213	1,235	1,086
Notional amounts of forward foreign exchange contracts used as economic hedges	(28,434)	(1,093,002)	(1,159)	(811)
Notional amounts of cross currency swaps	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities	51,837	1,214,211	76	275

	At 31 December 2012			
’000	USD	JPY	GBP	EUR
Cash and bank balances	(80)	(45)	(6)	(1)
Trade and other payables	67,689	826,742	870	1,245
Loan from a subsidiary	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities	817,609	826,697	864	1,244
Notional amounts of forward foreign exchange contracts used as economic hedges	(13,331)	(622,019)	(555)	(313)
Notional amounts of cross currency swaps	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities	54,278	204,678	309	931

	At 30 September 2013			
’000	USD	JPY	GBP	EUR
Cash and bank balances	(83)	(1)	(20)	(6)
Trade and other payables	65,703	356,033	575	138
Loan from a subsidiary	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities	815,620	356,032	555	132
Notional amounts of forward foreign exchange contracts used as economic hedges	(22,005)	(132,079)	(53)	—
Notional amounts of cross currency swaps	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities	43,615	223,953	502	132

(iv) *Sensitivity analysis*

The following table indicates that a 10 percent strengthening of the following currencies against Hong Kong dollars at the balance sheet date would have increased/decreased the Disposal Group's and HEC's profit for the year (and revenue reserve) and other components of equity.

	At 31 December						At 30 September	
	2010		2011		2012		2013	
	Effect on profit after taxation and revenue reserve	Effect on other components of equity	Effect on profit after taxation and revenue reserve	Effect on other components of equity	Effect on profit after taxation and revenue reserve	Effect on other components of equity	Effect on profit after taxation and revenue reserve	Effect on other components of equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Increase/ (decrease)	*Increase/ (decrease)*	*Increase/ (decrease)*	*Increase/ (decrease)*	*Increase/ (decrease)*	*Increase/ (decrease)*	*Increase/ (decrease)*	*Increase/ (decrease)*
Japanese Yen	14	23,131	292	18,532	(853)	5,971	(708)	5,203
Euros	(3)	—	(13)	1,035	(113)	—	(167)	—
Pounds Sterling	(76)	1,634	(703)	989	(29)	255	(184)	—

A 10 percent weakening in the above currencies against Hong Kong dollars at the balance sheet date would have had an equal but opposite effect on the Disposal Group's and HEC's profit after taxation (and revenue reserve) and other components of equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Disposal Group and HEC which expose the Disposal Group and HEC to currency risk at the balance sheet date, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

(e) ***Fair values***

(i) *Financial assets and liabilities carried at fair value*

The following table presents the fair value of the Disposal Group's and HEC's financial instruments measured at the balance sheet dates on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13: *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available

Level 3 valuations: Fair value measured using significant unobservable inputs

(1) Fair value hierarchy recognised fair value measurement

Recurring fair value measurement

	The Disposal Group			
	At 31 December			**At 30 September**
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Level 2	*Level 2*	*Level 2*	*Level 2*
Assets				
Derivative financial instruments:				
- Cross currency swaps	—	432,537	645,669	299,620
- Interest rate swaps	20,646	1,846	—	—
- Forward foreign exchange contracts	45,769	14,016	250	1,733
	66,415	448,399	645,919	301,353
Liabilities				
Derivative financial instruments:				
- Cross currency swaps	122,436	10,019	302	—
- Interest rate swaps	9,342	465	—	—
- Forward foreign exchange contracts	471	3,418	10,138	312
Medium term notes subject to fair value hedges	3,486,383	5,146,942	4,860,437	4,513,445
	3,618,632	5,160,844	4,870,877	4,513,757

Recurring fair value measurement

	HEC			
	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Level 2	*Level 2*	*Level 2*	*Level 2*
Assets				
Derivative financial instruments:				
- Cross currency swaps	—	432,537	645,669	299,620
- Interest rate swaps	20,646	1,846	—	—
- Forward foreign exchange contracts	45,769	14,016	250	1,733
	66,415	448,399	645,919	301,353
Liabilities				
Derivative financial instruments:				
- Cross currency swaps	122,436	10,019	302	—
- Interest rate swaps	9,342	465	—	—
- Forward foreign exchange contracts	471	3,418	10,138	312
Loan from a subsidiary subject to fair value hedges	3,486,383	5,146,942	4,860,437	4,513,445
	3,618,632	5,160,844	4,870,877	4,513,757

(2) Valuation techniques and inputs in Level 2 fair value measurements

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair values of cross currency swaps are determined by discounting the future cash flows of the contracts at the current market interest rates.

The fair value of medium term notes is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The carrying amounts of bank loans and other borrowings are estimated to approximate their fair values at the balance sheet date.

(ii) *Fair values of financial instruments carried at other than fair value*

The Disposal Group's and HEC's loan from ultimate holding company is interest-free and has no fixed term of repayment. Given these terms, it is not meaningful to disclose the fair value. Other than this financial instrument, the carrying amounts of the Disposal Group's and HEC's financial instruments are estimated to approximate their fair value.

30 Capital commitments

At 31 December 2010, 2011 and 2012 and 30 September 2013, the Disposal Group and HEC had capital commitments for fixed assets not provided for in the Financial Information as follows:

	At 31 December			At 30 September
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure for fixed assets authorised and contracted for	1,576,293	1,564,675	1,125,424	1,060,186
Capital expenditure for fixed assets authorised but not contracted for	9,373,380	9,348,307	8,763,773	7,884,165

31 Contingent liabilities

At 31 December 2010, 2011 and 2012 and 30 September 2013, HEC acted as the guarantor in respect of the loan facilities granted to its subsidiary of HK$7,689,250,000, HK$10,346,725,000, HK$10,622,500,000 and HK$11,328,500,000, respectively under the respective loan facility agreements.

32 Immediate parent and ultimate controlling party

At 30 September 2013, the directors consider the immediate parent and ultimate controlling party of HEC to be Power Assets Holdings Limited which is incorporated in Hong Kong and produces financial statements available for public use.

33 Material related party transactions

The Disposal Group and HEC had the following material transactions with related parties during the year/period:

(a) ***Key management personnel compensation***

Remuneration for key management personnel, including amounts paid to HEC's directors as disclosed in note 6 is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Short-term employee benefits	21,296	20,815	22,039	15,765	12,284
Post-employment benefits	3,259	2,496	2,089	1,590	1,502
	24,555	23,311	24,128	17,355	13,786

There was no outstanding amount due from key management personnel at 31 December 2010, 2011 and 2012 and 30 September 2013.

(b) ***Ultimate holding company***

(i) *Operating costs recharged by PAH*

Other operating costs include costs recharged by PAH to the Disposal Group for management and administrative support which amounted to HK$126,043,000, HK$104,916,000, HK$112,439,000, HK$90,146,000 (unaudited) and HK$95,068,000 for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively.

(ii) *On-sale of gas from PAH to the Disposal Group*

During the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, the aggregate amounts of fees paid by the Disposal Group to Guangdong Dapeng LNG Company Limited ("Guangdong Dapeng") and CNOOC Gas & Power Group Ltd. ("CNOOC Gas") in discharge of obligations owing by PAH for the purchase of natural gas from Guangdong Dapeng and CNOOC Gas pursuant to gas sales contracts entered into by PAH with Guangdong Dapeng and CNOOC Gas (the "Gas Supply Contracts") and on-sold to the Disposal Group at cost were approximately HK$2,211,171,000, HK$2,624,477,000, HK$2,929,586,000, HK$2,129,088,000 (unaudited) and HK$2,045,346,000, respectively. The amounts paid were based on gas prices which were determined based on the gas price formula under the Gas Supply Contracts.

(c) ***Subsidiary***

Interest expenses paid/payable in respect of the loans from a subsidiary amounted to HK$148,945,000, HK$415,301,000, HK$416,491,000, HK$309,801,000 (unaudited) and HK$330,852,000 for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively. Details of the loan balance due to a subsidiary at 31 December 2010, 2011 and 2012 and 30 September 2013 are disclosed in note 20.

34 **Critical accounting estimates and judgments**

The methods, estimates and judgments the directors used in applying the Disposal Group's accounting policies have a significant impact on the Disposal Group's financial position and operating results. Some of the accounting policies require the Disposal Group to apply estimates and judgments on matters that are inherently uncertain. In addition to notes 26 and 29 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgments in applying the Disposal Group's accounting policies are described below.

(a) ***Depreciation and amortisation***

Fixed assets are depreciated on a straight-line basis over their estimated useful lives after taking into account the estimated residual value. The Disposal Group reviews annually the useful life of an asset and its residual value, if any.

Interests in leasehold land held for own use under finance leases are amortised on a straight-line basis over the unexpired lease term. Both the period and methods of amortisation are reviewed annually.

The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) ***Impairment***

In considering the impairment losses that may be required for the Disposal Group's fixed assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate the fair value less costs to sell because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgment. The Disposal Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Any increase or decrease in impairment losses, recognised as set out above, would affect the net profit in future years.

35 **Possible impact of amendments, new standards and interpretations issued but not yet effective**

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

These include the following which may be relevant to the Disposal Group.

	Effective for accounting periods beginning on or after
HKAS 32, *Financial instruments: Presentation - Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Disposal Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far, it has concluded that the above developments are relevant to the Disposal Group's financial statements but the adoption of them is unlikely to have a significant impact on the Disposal Group's results of operations and financial position.

C SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 September 2013:

(a) **Reorganisation**

Pursuant to the proposed spin-off and separate listing of the Hong Kong electricity business operated by the Disposal Group by way of the listing of share stapled units to be issued jointly by HK Electric Investments (the "Trust") and HK Electric Investments Limited ("HKEIL") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Proposed Spin-Off") and if the approval of the shareholders is obtained at the extraordinary general meeting of the Company for the Proposed Spin-off, the Disposal Group will be acquired by HKEIL via its indirect wholly owned subsidiary in the manner described below:

(i) HK Electric Investments Manager Limited (in its capacity as trustee-manager of the Trust) (the "Trustee-Manager") and Quickview Limited ("Quickview"), a wholly owned subsidiary of the Company, will enter into a sale and purchase agreement pursuant to which Quickview will transfer the one issued share in HKEIL (re-designated as one ordinary share) held by it to the Trustee-Manager (in its capacity as trustee-manager of the Trust) in consideration for HK$0.0005 which the Trust will satisfy by issuing to Quickview one unit linked to that ordinary share held by the Trustee-Manager and stapled to the one preference share held by Quickview to form one share stapled unit (the "Share Stapled Units").

(ii) a conditional sale and purchase agreement will be entered into, among the Company (as the vendor), Treasure Business Limited ("Treasure Business") (as purchaser), an indirect wholly-owned subsidiary of HKEIL, the Trustee Manager and HKEIL pursuant to which the Company will conditionally agree to sell, and Treasure Business will conditionally agree to acquire, the entire issued share capital of HEC (the "Disposal").

Completion of the Disposal under the conditional sale and purchase agreement will take place immediately prior to 8:00 a.m. on the date on which the Share Stapled Units to be issued by the Trust and HKEIL are first listed and from which dealings in the Share Stapled Units are permitted to take place on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Date").

HEC will become an indirect wholly owned subsidiary of HKEIL upon completion of the Disposal.

The acquisition of HEC by Treasure Business will be accounted for using the purchase method of accounting in the consolidated financial statements of the Trust and HKEIL and its subsidiaries (the "Trust Group"). As a result, the Financial Information of the Disposal Group during the Relevant Periods is not necessarily indicative of the results of operations or state of affairs of the Trust Group following the completion of the Reorganisation and the Listing.

(b) **Repayment of loan from the Company and loan capital from the Company**

It is expected that on or before the fifth business day following the Listing Date, the Disposal Group will obtain interest-bearing loans totalling HK$28,300 million, part of which are to be used for the repayment of the loan owing to the Company and loan capital from the Company outstanding as of the date of completion of the Disposal.

(c) **Transfer of properties to the Company**

Certain properties with a total net book value of approximately HK$33 million owned by the Disposal Group were transferred to wholly-owned subsidiaries of the Company on 21 October 2013 at the estimated market value on that date.

(d) **Distribution of reserves**

(i) Interim dividends of HK$4,865 million were declared by HEC to the Company in respect of the unaudited profit attributable to the equity shareholders of HEC from 1 January 2013 to 30 November 2013. The dividends so declared to the extent that they are not paid shall form part of the loan owing to the Company which is expected to be settled by HEC on or before the fifth business day following the Listing Date as stated in note (b) above.

(ii) It is expected that further dividends will be declared by HEC to Treasure Business in respect of any remaining profit attributable to the equity shareholders of HEC for the year ending 31 December 2013 and the period from 1 January 2014 to the date of completion of the Disposal. Such profits will be paid by Treasure Business to the Company not later than 30 April 2014.

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Disposal Group or any of the companies which comprise the Disposal Group in respect of any period subsequent to 30 September 2013.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The unaudited pro forma financial information of the Remaining Group ("Unaudited Pro Forma Financial Information") has been prepared to illustrate the effect of the Disposal.

The Unaudited Pro Forma Financial Information, comprising the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated cash flow statement, has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It has been prepared by the Directors for illustrative purposes.

The unaudited pro forma consolidated balance sheet of the Remaining Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2013 as extracted from the published 2013 interim report of the Company for the six months ended 30 June 2013, after making pro forma adjustments relating to the Disposal, as if the Disposal had taken place on 30 June 2013.

The unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated cash flow statement of the Remaining Group are prepared based on the audited consolidated statement of profit or loss and the audited consolidated cash flow statement of the Group for the year ended 31 December 2012 as extracted from the published 2012 annual report of the Company for the year ended 31 December 2012, after making pro forma adjustments relating to the Disposal, as if the Disposal had taken place on 1 January 2012.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its nature, it does not purport to predict what the results or cash flows of the Remaining Group will be after the Disposal or the balance sheet that will be attained upon completion of the Disposal.

(i) **Assuming the Company will have an interest of 30% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off**

Unaudited Pro Forma Consolidated Balance Sheet

	The Group as at 30 June 2013	**Pro forma adjustments for the Disposal**			**The Remaining Group as at 30 June 2013**
	HK$'million *(Note 1)*	*HK$'million* *(Note 2)*	*HK$'million*	*Notes*	*HK$'million*
Non-current assets					
Fixed assets	49,009	(49,055)	49	3(i)	3
Interest in associates and joint ventures	40,002	—	14,400	4(i)(a)	54,402
Other non-current financial assets	67	—	—		67
Derivative financial instruments	344	(207)	—		137
Deferred tax assets	60	—	—		60
Employee retirement benefit assets	209	(308)	99	3(ii)	—
	89,691	(49,570)	14,548		54,669
Current assets					
Inventories	1,042	(1,042)	—		—
Trade and other receivables	2,086	(1,626)	—		460
Amounts due from fellow subsidiaries	—	(5)	5	3(iii)	—
Fuel Clause Recovery Account	263	(263)	—		—
Current tax recoverable	5	—	—		5
Bank deposits and cash	8,699	(8)	41,046	4(i)(b), 4(i)(c) &4(ii)	72,402
			22,665	4(iii)	
	12,095	(2,944)	63,716		72,867
Current liabilities					
Trade and other payables	(3,372)	1,806	(5)	3(iii)	(1,571)
Bank overdrafts - unsecured	(19)	19	—		—
Current portion of bank loans and other interest-bearing borrowings	(4,389)	4,389	—		—
Current tax payable	(587)	584	—		(3)
	(8,367)	6,798	(5)		(1,574)
Net current assets	3,728	3,854	63,711		71,293
Total assets less current liabilities	93,419	(45,716)	78,259		125,962

	The Group as at 30 June 2013	Pro forma adjustments for the Disposal			The Remaining Group as at 30 June 2013
	HK$'million *(Note 1)*	*HK$'million* *(Note 2)*	*HK$'million*	*Notes*	*HK$'million*
Non-current liabilities					
Loan from ultimate holding company	—	12,047	1,773	4(iii)	—
			8,845	4(iii)	
			(22,665)	4(iii)	
Bank loans and other interest-bearing borrowings	(21,163)	11,526	—		(9,637)
Derivative financial instruments	(212)	—	—		(212)
Customers' deposits	(1,862)	1,862	—		—
Deferred tax liabilities	(5,873)	5,873	—		—
Employee retirement benefit liabilities	(1,048)	833	(99)	3(ii)	(314)
	(30,158)	32,141	(12,146)		(10,163)
Rate Reduction Reserve	(3)	3	—		—
Tariff Stabilisation Fund	(532)	532	—		—
Net assets	62,726	(13,040)	66,113		115,799
Capital and reserves					
Share capital	2,134	(2,412)	2,412	4(iv)	2,134
Reserves	60,592	(1,783)	49	3(i)	113,665
			10	4(iv)	
			1,773	4(iii)	
			53,024	4(iv)	
Loan capital	—	(8,845)	8,845	4(iii)	—
Total equity attributable to equity shareholders of the Company	62,726	(13,040)	66,113		115,799

Unaudited Pro Forma Consolidated Statement of Profit or Loss

	The Group for the year ended 31 December 2012	Pro forma adjustments for the Disposal			The Remaining Group for the year ended 31 December 2012
	HK$'million *(Note 5)*	*HK$'million* *(Note 6)*	*HK$'million*	*Notes*	*HK$'million*
Turnover	10,415	(10,400)	—		15
Direct costs	(4,162)	4,153	—		(9)
	6,253	(6,247)	—		6
Other revenue and other net income	1,515	(32)	—		1,483
Other operating costs	(1,292)	652	—		(640)
Operating profit	6,476	(5,627)	—		849
Finance costs	(648)	265	—		(383)
Share of profits less losses of associates and joint ventures	4,665	—	926	8	5,591
Gain on disposal of subsidiaries	—	—	53,038	7	53,038
Profit before taxation	10,493	(5,362)	53,964		59,095
Income tax:					
Current	(676)	733	—		57
Deferred	(159)	158	—		(1)
Profit after taxation	9,658	(4,471)	53,964		59,151
Scheme of Control transfers from/(to):					
Tariff Stabilisation Fund	72	(72)	—		—
Rate Reduction Reserve	(1)	1	—		—
Profit for the year	9,729	(4,542)	53,964		59,151

Unaudited Pro Forma Consolidated Cash Flow Statement

	The Group for the year ended 31 December 2012	Pro forma adjustments for the Disposal			The Remaining Group for the year ended 31 December 2012
	HK$'million (Note 5)	*HK$'million (Note 9)*	*HK$'million*	*Notes*	*HK$'million*
Profit before taxation	10,493	(5,362)	53,964	7&8	59,095
Adjustments for:					
Share of profits less losses of associates and joint ventures	(4,665)	—	(926)	8	(5,591)
Interest income	(1,443)	—	—		(1,443)
Dividend income from unlisted available-for-sale equity securities	(41)	—	—		(41)
Finance costs	668	(285)	—		383
Depreciation	1,859	(1,862)	—		(3)
Amortisation of leasehold land	59	(58)	—		1
Fixed assets written off	47	(47)	—		—
Exchange gains	(2)	(1)	—		(3)
Gain on disposal of subsidiaries	—	—	(53,038)	7	(53,038)
Changes in working capital:					
Increase in inventories	(18)	18	—		—
Increase in trade and other receivables	(639)	100	—		(539)
Decrease in Fuel Clause Recovery Account	215	(215)	—		—
Increase in trade and other payables	511	24	10	11(i)	545
Increase in amount due to a fellow subsidiary	—	10	(10)	11(i)	—
Increase in net employee retirement benefit liabilities	(80)	75	—		(5)
Cash generated from operations	6,964	(7,603)	—		(639)
Interest paid	(659)	293	—		(366)
Interest received	1,485	—	—		1,485
Hong Kong Profits Tax paid	(622)	621	—		(1)
Hong Kong Profits Tax refunded	5	—	—		5
Tax paid for operations outside Hong Kong	(12)	—	—		(12)
Tax refunded for operations outside Hong Kong	63	—	—		63
Net cash generated from operating activities	7,224	(6,689)	—		535

	The Group for the year ended 31 December 2012	Pro forma adjustments for the Disposal			The Remaining Group for the year ended 31 December 2012
	HK$'million (Note 5)	*HK$'million (Note 9)*	*HK$'million*	*Notes*	*HK$'million*
Investing activities					
Purchase of fixed assets and capital stock	(2,605)	2,605	—		—
Decrease in bank deposits with more than three months to maturity when placed	851	—	—		851
Capitalised interest paid	(72)	72	—		—
Receipts from sale of fixed assets	2	(2)	—		—
Investments in associates and joint ventures	(1,281)	—	—		(1,281)
New loans to associates and joint ventures	(1,192)	—	—		(1,192)
Advance to associates and joint ventures	(40)	—	—		(40)
Dividends received from associates and joint ventures	2,358	—	334	10	2,692
Dividends received from available-for-sale equity securities	41	—	—		41
Net cash received on disposal of subsidiaries	—	—	41,046	4(i)(b), 4(i)(c) & 4(ii)	41,046
Net cash (used in)/generated from investing activities	(1,938)	2,675	41,380		42,117
Financing activities					
Repayment of loan by HEC	—	810	3,761 22,665	11(ii) 4(iii)	27,236
New bank loans and other borrowings	3,787	(997)	—		2,790
Repayment of bank loans and other borrowings	(3,290)	500	—		(2,790)
New customers' deposits	278	(278)	—		—
Repayment of customers' deposits	(240)	240	—		—
Dividend paid to equity shareholders of the Company	(4,951)	3,761	(3,761)	11(ii)	(4,951)
Net cash (used in)/generated from financing activities	(4,416)	4,036	22,665		22,285
Net increase/(decrease) in cash and cash equivalents	870	22	64,045		64,937
Cash and cash equivalents at 1 January	4,522	(24)	—		4,498
Effect of foreign exchange rate changes	(7)	—	—		(7)
Cash and cash equivalents at 31 December	5,385	(2)	64,045		69,428

(ii) **Assuming the Company will have an interest of 49.9% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off**

Unaudited Pro Forma Consolidated Balance Sheet

	The Group as at 30 June 2013	Pro forma adjustments for the Disposal			The Remaining Group as at 30 June 2013
	HK$'million (Note 1)	*HK$'million (Note 2)*	*HK$'million*	*Notes*	*HK$'million*
Non-current assets					
Fixed assets	49,009	(49,055)	49	3(i)	3
Interest in associates and joint ventures	40,002	—	23,952	4(i)(a)	63,954
Other non-current financial assets	67	—	—		67
Derivative financial instruments	344	(207)	—		137
Deferred tax assets	60	—	—		60
Employee retirement benefit assets	209	(308)	99	3(ii)	—
	89,691	(49,570)	24,100		64,221
Current assets					
Inventories	1,042	(1,042)	—		—
Trade and other receivables	2,086	(1,626)	—		460
Amounts due from fellow subsidiaries	—	(5)	5	3(iii)	—
Fuel Clause Recovery Account	263	(263)	—		—
Current tax recoverable	5	—	—		5
Bank deposits and cash	8,699	(8)	31,733	4(i)(b), 4(i)(c) &4(ii)	63,089
			22,665	4(iii)	
	12,095	(2,944)	54,403		63,554
Current liabilities					
Trade and other payables	(3,372)	1,806	(5)	3(iii)	(1,571)
Bank overdrafts - unsecured	(19)	19	—		—
Current portion of bank loans and other interest-bearing borrowings	(4,389)	4,389	—		—
Current tax payable	(587)	584	—		(3)
	(8,367)	6,798	(5)		(1,574)
Net current assets	3,728	3,854	54,398		61,980
Total assets less current liabilities	93,419	(45,716)	78,498		126,201

	The Group as at 30 June 2013	Pro forma adjustments for the Disposal			The Remaining Group as at 30 June 2013
	HK$'million *(Note 1)*	*HK$'million* *(Note 2)*	*HK$'million*	*Notes*	*HK$'million*
Non-current liabilities					
Loan from ultimate holding company	—	12,047	1,773	4(iii)	—
			8,845	4(iii)	
			(22,665)	4(iii)	
Bank loans and other interest-bearing borrowings	(21,163)	11,526	—		(9,637)
Derivative financial instruments	(212)	—	—		(212)
Customers' deposits	(1,862)	1,862	—		—
Deferred tax liabilities	(5,873)	5,873	—		—
Employee retirement benefit liabilities	(1,048)	833	(99)	3(ii)	(314)
	(30,158)	32,141	(12,146)		(10,163)
Rate Reduction Reserve	(3)	3	—		—
Tariff Stabilisation Fund	(532)	532	—		—
Net assets	62,726	(13,040)	66,352		116,038
Capital and reserves					
Share capital	2,134	(2,412)	2,412	4(iv)	2,134
Reserves	60,592	(1,783)	49	3(i)	113,904
			10	4(iv)	
			1,773	4(iii)	
			53,263	4(iv)	
Loan capital	—	(8,845)	8,845	4(iii)	—
Total equity attributable to equity shareholders of the Company	62,726	(13,040)	66,352		116,038

Unaudited Pro Forma Consolidated Statement of Profit or Loss

	The Group for the year ended 31 December 2012	Pro forma adjustments for the Disposal			The Remaining Group for the year ended 31 December 2012
	HK$'million *(Note 5)*	*HK$'million* *(Note 6)*	*HK$'million*	*Notes*	*HK$'million*
Turnover	10,415	(10,400)	—		15
Direct costs	(4,162)	4,153	—		(9)
	6,253	(6,247)	—		6
Other revenue and other net income	1,515	(32)	—		1,483
Other operating costs	(1,292)	652	—		(640)
Operating profit	6,476	(5,627)	—		849
Finance costs	(648)	265	—		(383)
Share of profits less losses of associates and joint ventures	4,665	—	1,541	8	6,206
Gain on disposal of subsidiaries	—	—	53,277	7	53,277
Profit before taxation	10,493	(5,362)	54,818		59,949
Income tax:					
Current	(676)	733	—		57
Deferred	(159)	158	—		(1)
Profit after taxation	9,658	(4,471)	54,818		60,005
Scheme of Control transfers from/(to):					
Tariff Stabilisation Fund	72	(72)	—		—
Rate Reduction Reserve	(1)	1	—		—
Profit for the year	9,729	(4,542)	54,818		60,005

Unaudited Pro Forma Consolidated Cash Flow Statement

	The Group for the year ended 31 December 2012	Pro forma adjustments for the Disposal			The Remaining Group for the year ended 31 December 2012
	HK$'million (Note 5)	*HK$'million (Note 9)*	*HK$'million*	*Notes*	*HK$'million*
Profit before taxation	10,493	(5,362)	54,818	7&8	59,949
Adjustments for:					
Share of profits less losses of associates and joint ventures	(4,665)	—	(1,541)	8	(6,206)
Interest income	(1,443)	—	—		(1,443)
Dividend income from unlisted available-for-sale equity securities	(41)	—	—		(41)
Finance costs	668	(285)	—		383
Depreciation	1,859	(1,862)	—		(3)
Amortisation of leasehold land	59	(58)	—		1
Fixed assets written off	47	(47)	—		—
Exchange gains	(2)	(1)	—		(3)
Gain on disposal of subsidiaries	—	—	(53,277)	7	(53,277)
Changes in working capital:					
Increase in inventories	(18)	18	—		—
Increase in trade and other receivables	(639)	100	—		(539)
Decrease in Fuel Clause Recovery Account	215	(215)	—		—
Increase in trade and other payables	511	24	10	11(i)	545
Increase in amount due to a fellow subsidiary	—	10	(10)	11(i)	—
Increase in net employee retirement benefit liabilities	(80)	75	—		(5)
Cash generated from operations	6,964	(7,603)	—		(639)
Interest paid	(659)	293	—		(366)
Interest received	1,485	—	—		1,485
Hong Kong Profits Tax paid	(622)	621	—		(1)
Hong Kong Profits Tax refunded	5	—	—		5
Tax paid for operations outside Hong Kong	(12)	—	—		(12)
Tax refunded for operations outside Hong Kong	63	—	—		63
Net cash generated from operating activities	7,224	(6,689)	—		535

	The Group for the year ended 31 December 2012	Pro forma adjustments for the Disposal			The Remaining Group for the year ended 31 December 2012
	HK$'million (Note 5)	*HK$'million (Note 9)*	*HK$'million*	*Notes*	*HK$'million*
Investing activities					
Purchase of fixed assets and capital stock	(2,605)	2,605	—		—
Decrease in bank deposits with more than three months to maturity when placed	851	—	—		851
Capitalised interest paid	(72)	72	—		—
Receipts from sale of fixed assets	2	(2)	—		—
Investments in associates and joint ventures	(1,281)	—	—		(1,281)
New loans to associates and joint ventures	(1,192)	—	—		(1,192)
Advance to associates and joint ventures	(40)	—	—		(40)
Dividends received from associates and joint ventures	2,358	—	555	10	2,913
Dividends received from available-for-sale equity securities	41	—	—		41
Net cash received on disposal of subsidiaries	—	—	31,733	4(i)(b), 4(i)(c) &4(ii)	31,733
Net cash (used in)/generated from investing activities	(1,938)	2,675	32,288		33,025
Financing activities					
Repayment of loan by HEC	—	810	3,761 22,665	11(ii) 4(iii)	27,236
New bank loans and other borrowings	3,787	(997)	—		2,790
Repayment of bank loans and other borrowings	(3,290)	500	—		(2,790)
New customers' deposits	278	(278)	—		—
Repayment of customers' deposits	(240)	240	—		—
Dividend paid to equity shareholders of the Company	(4,951)	3,761	(3,761)	11(ii)	(4,951)
Net cash (used in)/generated from financing activities	(4,416)	4,036	22,665		22,285
Net increase/(decrease) in cash and cash equivalents	870	22	54,953		55,845
Cash and cash equivalents at 1 January	4,522	(24)	—		4,498
Effect of foreign exchange rate changes	(7)	—	—		(7)
Cash and cash equivalents at 31 December	5,385	(2)	54,953		60,336

Notes:

1. The amounts are extracted from the unaudited condensed financial statements of the Group as set out in the published 2013 interim report of the Company dated 24 July 2013 for the six months ended 30 June 2013.

2. The adjustments represent the exclusion of assets and liabilities of HEC and its subsidiary (the "Disposal Group") assuming the Disposal had taken place on 30 June 2013. The balances have been extracted from the unaudited management accounts of the Disposal Group as at 30 June 2013.

3. The adjustments reflect the effect of the following:

   (i) release of intra-group profit on consolidation of fixed assets of HK$49 million as a result of the Disposal. This intra-group profit related to the construction of fixed assets by fellow subsidiaries of HEC;

   (ii) the reclassification of employee retirement benefit assets of HK$99 million to employee retirement benefit liabilities; and

   (iii) the reclassification of amounts due from fellow subsidiaries of HK$5 million to trade and other payables.

4. The adjustments reflect the effect of the following:

   (i) The Company as the vendor, Treasure Business Limited as purchaser, HKEIL and the Trustee-Manager will enter into a sale and purchase agreement for the sale by the Company and purchase by Treasure Business Limited of the entire issued share capital of HEC. Assuming the Company will have an interest in 30% or 49.9% of the Share Stapled Units in issue following the completion of the Proposed Spin-off, the consideration payable to the Company for acquisition of the entire issued share capital of HEC pursuant to such sale and purchase agreement will amount to approximately HK$55,663 million or HK$55,902 million, respectively, which will comprise:

      (a) approximately HK$14,400 million or approximately HK$23,952 million respectively, which represents the consideration of Share Stapled Units issued to Quickview Limited assuming that the Trust Group Market Capitalisation will be the Minimum Trust Group Market Capitalisation of HK$48 billion;

      (b) the net proceeds from the Global Offering of HK$32,760 million or HK$23,447 million respectively, which represents the gross proceeds of approximately HK$33,600 million or HK$24,048 million, respectively assuming that the Trust Group Market Capitalisation will be the Minimum Trust Group Market Capitalisation after deducting the underwriting commissions and incentive fees payable to the underwriters of approximately HK$840 million or approximately HK$601 million, respectively; and

      (c) the net proceeds of HK$8,503 million, which represents the gross amount to be drawn down by HKEIL under the HKEIL Loan Facility of HK$8,700 million after deducting front end fees payable in respect of HKEIL Loan Facility of HK$78 million, the agreed costs and expenses of the Global Offering (excluding the underwriting commission and incentive fees payable to the underwriters) of approximately HK$109 million and HK$10 million which will be set aside as working capital of the Trust Group.

   It is intended that immediately following the completion of the Proposed Spin-off (regardless of whether the Over-allotment Option is exercised or not), the Company will have an interest in not more than 49.9% and not less than 30% of the Share Stapled Units in issue. Accordingly, HEC will cease to be a subsidiary of the Company, and the Trust Group will be classified by the Company as an associate and accounted for in the Company's financial statements using the equity method of accounting.

   (ii) Under the Sale and Purchase Agreement, the stamp duty and other expenses in respect of the transfer of the entire issued share capital of HEC will be borne by the Company. The amount of stamp duty and other expenses is estimated to be HK$217 million.

(iii) The adjustment represents repayment of the loan from the Company of HK$22,665 million by HEC. The revenue reserve of HEC of HK$1,773 million as at 30 June 2013 is expected to be distributed to the Company by way of an interim dividend before the completion of the Disposal. After the completion of the Disposal, the loan from ultimate holding company (including loan from ultimate holding company of HK$12,047 million, loan capital of HK$8,845 million and interim dividends payable of HK$1,773 million as set out above) will be repaid by HEC to the Company.

(iv) The adjustment reflects the estimated gain on Disposal, assuming the Disposal had taken place on 30 June 2013.

Assuming the Company will have an interest in 30% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off

		HK$' million
Estimated consideration for the Disposal (see note 4(i) above)		55,663
Less:		
Net assets of Disposal Group as at 30 June 2013	13,040	
Repayment of loan capital by HEC (see note 4(iii) above)	(8,845)	
Distribution of revenue reserves (see note 4(iii) above)	(1,773)	
Adjusted pro forma net assets of Disposal Group	2,422	
Stamp duty and other expenses on disposal of HEC (see note 4(ii) above)	217	(2,639)
Estimated pro forma gain on disposal of the Disposal Group		53,024

Assuming the Company will have an interest in 49.9% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off

		HK$' million
Estimated consideration for the Disposal (see note 4(i) above)		55,902
Less:		
Net assets of Disposal Group as at 30 June 2013	13,040	
Repayment of loan capital by HEC (see note 4(iii) above)	(8,845)	
Distribution of revenue reserves (see note 4(iii) above)	(1,773)	
Adjusted pro forma net assets of Disposal Group	2,422	
Stamp duty and other expenses on disposal of HEC (see note 4(ii) above)	217	(2,639)
Estimated pro forma gain on disposal of the Disposal Group		53,263

Since the final amounts for the consideration of the Disposal will depend on the net proceeds from the Global Offering and since the actual carrying amounts of the assets and liabilities of the Disposal Group on completion of the Disposal will be different from the amounts used in the preparation of the Unaudited Pro Forma Financial Information, the actual gain or loss on the Disposal may be significantly different from the estimated gain presented above.

5. The amounts are extracted from the audited financial statements of the Group as set out in the published 2012 annual report of the Company dated 6 March 2013 for the year ended 31 December 2012.

6. The adjustments represent the exclusion of the results of the Disposal Group for the year ended 31 December 2012 as if the Disposal had taken place on 1 January 2012. The amounts are extracted from the financial information of the Disposal Group for the year ended 31 December 2012 as set forth in Appendix II to this circular.

7. The adjustment reflects the estimated gain on Disposal, assuming the Disposal had taken place on 1 January 2012.

Assuming the Company will have an interest in 30% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off

		HK$' million
Estimated consideration for the Disposal (see note 4(i) above)		55,663
Less:		
Net assets of Disposal Group as at 1 January 2012	13,695	
Repayment of loan capital by HEC (see note 4(iii) above)	(8,845)	
Distribution of revenue reserves available at 1 January 2012	(2,442)	
Adjusted pro forma net assets of Disposal Group	2,408	
Stamp duty and other expenses on disposal of HEC (see note 4(ii) above)	217	(2,625)
Estimated pro forma gain on disposal of the Disposal Group		53,038

Assuming the Company will have an interest in 49.9% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off

		HK$' million
Estimated consideration for the Disposal (see note 4(i) above)		55,902
Less:		
Net assets of Disposal Group as at 1 January 2012	13,695	
Repayment of loan capital by HEC (see note 4(iii) above)	(8,845)	
Distribution of revenue reserves available at 1 January 2012	(2,442)	
Adjusted pro forma net assets of Disposal Group	2,408	
Stamp duty and other expenses on disposal of HEC (see note 4(ii) above)	217	(2,625)
Estimated pro forma gain on disposal of the Disposal Group		53,277

This adjustment is not expected to have a continuing effect on the Remaining Group.

Since the final amounts for the consideration of the Disposal will depend on the net proceeds from the Global Offering and since the actual carrying amounts of the assets and liabilities of the Disposal Group on completion of the Disposal will be different from the amounts used in the preparation of the Unaudited Pro Forma Financial Information, the actual gain or loss on the Disposal may be significantly different from the estimated gain presented above.

8. The adjustment represents the Company's share of profits of the Trust Group for the year ended 31 December 2012 as if the Disposal had taken place on 1 January 2012. For the purpose of this Unaudited Pro Forma Financial Information, the Directors have assumed that the Company will have an interest of 30% or 49.9% of the Share Stapled Units in issue immediately following the completion of the Proposed Spin-off and the adjustment represents a share of 30% or 49.9% of the Trust Group's estimated profit for the year ended 31 December 2012, calculated based on the actual results of the

Disposal Group for the year ended 31 December 2012 and adjusted for the increase in (i) depreciation arising from the revaluation of fixed assets to their estimated fair values upon acquisition by Treasure Business Limited; (ii) interest expenses due to the draw down of new bank loans; and (iii) administrative costs for the maintenance of the Trust, and the impact on the movement in deferred tax arising from the revaluation of fixed assets.

For the purpose of preparation of the Unaudited Pro Forma Financial Information, the identifiable assets and liabilities of the Disposal Group will be accounted for in the consolidated financial statements of the Trust Group using the purchase method of accounting in accordance with HKFRS, such that the fair value of these identifiable assets and liabilities will be significantly greater than the historical amounts at which such assets and liabilities were previously stated. As a result, the amount of the depreciation and amortisation charges will significantly increase and will be partially offset by the recognition of deferred tax liabilities. The fair value of the identifiable assets and liabilities of the Disposal Group which existed on 1 January 2012 is based on the Directors' best current estimates.

This adjustment is expected to have a continuing effect on the Remaining Group.

The actual fair values of the identifiable assets and liabilities of the Disposal Group will be determined as of the acquisition date by an independent valuer. The actual fair values of the identifiable assets and liabilities of the Disposal Group may differ materially from the fair values estimated by the Directors above for the purpose of estimating the Remaining Group's share of estimated profit of the Trust Group for the year ended 31 December 2012 as if the Disposal had taken place on 1 January 2012.

9. The adjustments represent the exclusion of the cash flows of the Disposal Group for the year ended 31 December 2012 as if the Disposal had taken place on 1 January 2012. The amounts are extracted from the financial information of the Disposal Group for the year ended 31 December 2012 as set forth in Appendix II to this circular.

10. The interim dividend distributed and paid by the Trust Group is determined based on historical distribution paid out rate on the actual distributable income of the Disposal Group for the year ended 31 December 2012 after taking into account the additional interest paid for the new bank loans and administrative costs. The estimated interim dividend is for pro forma financial information purposes only and is not indicative of any future dividend payments by the Trust Group.

    This adjustment is expected to have a continuing effect on the Remaining Group.

11. The adjustments reflect (i) the reclassification of increase in amount due to a fellow subsidiary of HK$10 million to increase in trade and other payables; and (ii) the reclassification of the dividend paid of HK$3,761 million by HEC to the Company to increase in loan from ultimate holding company.

    These adjustments are not expected to have a continuing effect on the Remaining Group.

12. No adjustment has been made to reflect any trading results or any other transactions of the Group entered into subsequent to 30 June 2013. Certain properties with total net book value of approximately HK$33 million owned by the Disposal Group were transferred to wholly-owned subsidiaries of the Company outside the Disposal Group on 21 October 2013 at the estimated market value at that date.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, for the purpose of incorporation in this circular.

KPMG

TO THE DIRECTORS OF POWER ASSETS HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Power Assets Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 30 June 2013 and the unaudited pro forma consolidated statement of profit or loss and pro forma consolidated cash flow statement for the year ended 31 December 2012 and related notes as set out in Part A of Appendix III to the circular dated 16 December 2013 issued by the Company in relation to the proposed spin-off and separate listing of the Group's Hong Kong electricity business on the Main Board of The Stock Exchange of Hong Kong Limited (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed spin-off and separate listing of the Group's Hong Kong electricity business which is operated by The Hongkong Electric Company, Limited and its subsidiary (the " Proposed Spin-off") on the Group's financial position as at 30 June 2013 and the Group's financial performance and cash flows for the year ended 31 December 2012 as if the Proposed Spin-off had taken place at 30 June 2013 and 1 January 2012, respectively. As part of this process, information about the Group's financial position as at 30 June 2013 has been extracted by the Directors from the interim report of the Group for the six months ended 30 June 2013, on which no review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2012 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2013 or 31 December 2012 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
16 December 2013

Set out below is the management discussion and analysis on the Remaining Group for each of the years ended 31 December 2010, 31 December 2011 and 31 December 2012 and the six months ended 30 June 2013. The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the audited consolidated financial statements of the Company for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 and the unaudited consolidated financial statements of the Company for the six months ended 30 June 2013.

(a) **Business review for the year ended 31 December 2010**

Business and financial review

For the year ended 31 December 2010, profit attributable to shareholders of the Remaining Group was HK$2,574 million, representing a 24% growth from 2009. Investments in the United Kingdom, Australia and the PRC contributed 39%, 29% and 21% of Remaining Group's earnings respectively.

In the United Kingdom, the financial performance of the UK Power Networks, in which we acquired a 40% stake in October 2010, was above expectations. Seabank Power, in which we acquired a 25% stake in June 2010, achieved excellent availability from its operations. Northern Gas Networks maintained earnings in line with that for 2009.

In Australia, SA Power Networks (formerly known as ETSA Utilities) distribution and asset-related revenues saw strong growth that resulted in higher earnings. Both CitiPower and Powercor achieved good reliability in 2010.

In the PRC, the Dali and Laoting Wind Farms had their first full year of operation in 2010 and sent out 38% more electricity than in 2009. The Jinwan Power Plant saw double-digit growth in units sold in 2010 while the output of the Zhuhai Power Plant and Siping Cogeneration Plant were slightly lower than 2009.

In New Zealand, Wellington Electricity recorded a growth in customers. Volume of electricity distributed was slightly lower than in 2009 due to the warmer weather in 2010.

In Canada, Stanley Power holds a 49.99% interest in TransAlta Cogeneration LP, which generated higher production, revenue and gross margin in 2010.

In Thailand, Ratchaburi Power recorded a successful year of operations.

Significant investments and disposals

In October 2010, we acquired a 40% interest in UK Power Networks, with an investment of approximately £1,061 million (approximately HK$12,839 million). The company is the largest electricity distributor in the United Kingdom servicing approximately eight million customers.

In June 2010, we acquired a 25% stake in Seabank Power, with an investment of approximately £106 million (approximately HK$1,208 million). The electricity-generating company is located near Bristol in the United Kingdom and operates two gas-fired combined-cycle gas turbine generating units with an aggregate capacity of 1,140MW.

There were no disposals of subsidiaries and associated companies in year 2010.

Financing activities and debt structure

As at 31 December 2010, the net debt of the Remaining Group was HK$7,354 million with a net debt-to-net total capital ratio of 15%. The profile of the Remaining Group's external borrowings, after taking into account interest rate and cross currency swaps, was as follows:

(1) 36% were in Australian dollars and 64% were in Pounds Sterling;

(2) 100% were bank loans;

(3) 64% were repayable within 1 year and 36% were repayable beyond 5 years;

(4) 36% were in fixed rate and 64% were in floating rate.

The Remaining Group's policy is to maintain a portion of our debt at fixed interest rates. Interest rate risk is managed by either securing fixed or floating rate borrowings or by using interest rate derivatives.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2010 amounted to HK$8,668 million.

Charges on assets, contingent liabilities and capital commitments

At 31 December 2010, the Remaining Group's interest in two associates of HK$13,704 million had been pledged as part of the security to secure financing facilities granted to those associates.

At 31 December 2010, the Remaining Group's interest in a jointly controlled entity amounted to HK$3,259 million and such interest had been pledged as part of the security to secure financing facilities granted to that jointly controlled entity.

As at 31 December 2010, the amount of guarantees and indemnities provided by the Remaining Group was HK$2,126 million.

The Remaining Group's capital commitments outstanding at 31 December 2010 and not provided for in the financial statements amounted to HK$469 million and were mainly for investment in an associate.

Employees

The Remaining Group's total remuneration costs for the year ended 31 December 2010, excluding directors' emoluments, amounted to HK$83 million. As at 31 December 2010, the Remaining Group employed 134 permanent employees. No share option scheme is in operation.

(b) **Business review for the year ended 31 December 2011**

Business and financial review

For the year ended 31 December 2011, profit attributable to shareholders of the Remaining Group was HK$4,595 million, representing a 79% growth from 2010.

In the United Kingdom, the financial performance of UK Power Networks was well ahead of expectations. Together with improved operational performance in a number of key areas, UK Power Networks made significant progress in improving the performance of its networks and in minimising the impact of power interruptions. Seabank Power's revenue for the year was ahead of forecast. Northern Gas Networks recorded higher total revenue as compared to 2010 as a result of a gas transportation price increase. Investments in the United Kingdom contributed 77% of the Remaining Group's earnings.

In Australia, SA Power Networks (formerly known as ETSA Utilities), which is the sole electricity distributor in the State of South Australia serving over 825,000 customers, met all key financial targets in 2011. CitiPower and Powercor in Australia continued to make stable earnings contribution.

In the PRC, the Zhuhai Power Plant continued to enjoy contractual returns, while the Jinwan Power Plant recorded satisfactory earnings with improved operating efficiency. The Dali Wind Farm in Yunnan Province and Laoting Wind Farm in Hebei province operated smoothly in 2011.

In Thailand, Ratchaburi Power recorded a successful year for 2011. Both its power units achieved full availability required under a 25-year power purchase agreement with the Electricity Generating Authority of Thailand.

In New Zealand, Wellington Electricity network continued to perform reliably in 2011.

In April 2011, Stanley Power completed the acquisition of a 100% interest in the 220 MW Meridian Cogeneration gas fired plant in Saskatchewan. TransAlta Cogeneration LP, which holds interests in five power generation plants in Canada and in which Stanley Power has a 49.99% interest, performed well in 2011.

Significant investments and disposals

There were no significant investments and disposals of subsidiaries and associated companies in year 2011.

Financing activities and debt structure

As at 31 December 2011, the net debt of the Remaining Group was HK$1,755 million with a net debt-to-net total capital ratio of 4%. The profile of the Remaining Group's external borrowings, after taking into account interest rate and cross currency swaps, was as follows:

(1) 61% were in Australian dollars and 39% were in Pounds Sterling;

(2) 100% were bank loans;

(3) 61% were repayable between 2 and 5 years and 39% were repayable beyond 5 years;

(4) 61% were in fixed rate and 39% were in floating rate.

The Remaining Group's policy is to maintain a portion of our debt at fixed interest rates. Interest rate risk is managed by either securing fixed or floating rate borrowings or by using interest rate derivatives.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2011 amounted to HK$16,374 million.

Charges on assets, contingent liabilities and capital commitments

At 31 December 2011, the Remaining Group's interest in two associates of HK$10,964 million had been pledged as part of the security to secure financing facilities granted to those associates.

At 31 December 2011, the Remaining Group's interest in a jointly controlled entity of HK$3,120 million had been pledged as part of the security to secure financing facilities granted to that jointly controlled entity.

As at 31 December 2011, the amount of guarantees and indemnities provided by the Remaining Group was HK$1,149 million.

There were no capital commitments outstanding at 31 December 2011 and not provided for in the financial statements.

Employees

The Remaining Group's total remuneration costs for the year ended 31 December 2011, excluding directors' emoluments, amounted to HK$87 million. As at 31 December 2011, the Remaining Group employed 134 permanent employees. No share option scheme is in operation.

(c) **Business review for the year ended 31 December 2012**

Business and financial review

For the year ended 31 December 2012, profit attributable to shareholders of the Remaining Group was HK$5,187 million, representing a 13% growth from 2011.

Our investments in the United Kingdom, operating under a transparent regulatory and legal framework, contributed 81% of the total earnings. The financial performance of UK Power Networks was strong and exceeded expectations. Northern Gas Networks' strong financial performance was supported by targeted cost reduction and manpower rationalisation.

In Australia, our businesses remained stable despite unfavourable weather conditions and an adverse economic environment.

Generation assets in the PRC faced softer electricity demand and achieved less favourable results. Our operations in Canada, Thailand and New Zealand also delivered weaker performances compared with the respective performances in 2011.

Significant investments and disposals

In September 2012, we entered into renewable energy transmission in Australia with Cheung Kong Infrastructure Holdings Limited through a new joint venture called Transmission Operations Australia with an investment of approximately AUD34 million (approximately HK$268 million). The joint venture is to construct, own and operate a power transmission link to transport renewable energy to Victoria's power grid.

In October 2012, we acquired a 30% stake in Wales and West Utilities with approximately £204 million (approximately HK$2,452 million). Wales and West Utilities is one of the eight major gas distribution networks in the United Kingdom, serving approximately 2.5 million customers in Wales and the South West of England.

There were no disposals of subsidiaries and associated companies in year 2012.

Financing activities and debt structure

As at 31 December 2012, the net debt of the Remaining Group was HK$1,981 million with a net debt-to-net total capital ratio of 4%. The profile of the Remaining Group's external borrowings, after taking into account interest rate and cross currency swaps, was as follows:

(1) 61% were in Australian dollars and 39% were in Pounds Sterling;

(2) 100% were bank loans;

(3) 61% were repayable between 2 and 5 years and 39% were repayable beyond 5 years;

(4) 100% were in fixed rate.

Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2012 amounted to HK$20,725 million.

Charges on assets, contingent liabilities and capital commitments

At 31 December 2012, the Remaining Group's interest in an associate of HK$630 million had been pledged as part of the security to secure financing facilities granted to the associate.

As at 31 December 2012, the amount of guarantees and indemnities provided by the Remaining Group was HK$979 million.

The Remaining Group's capital commitments outstanding at 31 December 2012 and not provided for in the financial statements amounted to HK$245 million and were for investment in an associate.

Employees

The Remaining Group's total remuneration costs for the year ended 31 December 2012, excluding directors' emoluments, amounted to HK$98 million. As at 31 December 2012, the Remaining Group employed 135 permanent employees. No share option scheme is in operation.

(d) **Business review for the six months ended 30 June 2013**

Business and financial review

For the six months ended 30 June 2013, profit attributable to shareholders of the Remaining Group was HK$2,999 million, representing a 15% increase as compared with the same period in 2012.

United Kingdom remained our largest market and contributed 78% of the total earnings. Tariff increases in 2013 for both UK Power Networks and Northern Gas Networks enhanced their sales revenues. Wales and West Utilities, acquired in October 2012, was effective in further enhancing the revenue stream of the UK business.

Our Australian businesses yielded reliable profit contributions. The construction of a transmission link to transport electricity from a wind farm to Victoria's power grid by Transmission Operations Australia, a joint venture set up in September 2012, proceeded on schedule. In June 2013, the Australian Tax Office filed a claim against the Company. We have obtained legal advice and will vigorously defend our position.

In the PRC, the Zhuhai Power Plant provided lower profit contributions because of planned outages for major overhauls which would increase efficiencies of the plant over the medium to long term. Our investments in Canada, Thailand and New Zealand maintained stable or slightly lower revenues and earnings, partly due to softer demand conditions.

Significant investments and disposals

In June 2013, the Remaining Group entered into an agreement to acquire a 20% stake in AVR Afvalverwerking B.V. (AVR), which is principally engaged in the business of waste processing and production and supply of renewable energy from the incineration of waste in the Netherlands, with an investment of approximately EUR190 million (approximately HK$1,968 million). The investment represents both a further diversification of our asset portfolio into the energy-from-waste industry and a further geographical diversification into the European Continent. The acquisition was completed on 28 August 2013.

There were no disposals of subsidiaries and associated companies in six months ended 30 June 2013.

Future plans for material investments or capital assets

The Remaining Group actively yet prudently seeks growth in segments of expertise within stable, well-structured markets. We focus on electricity and gas distribution, supplemented by a select portfolio of generation businesses. The Remaining Group's low gearing ratio and A+ credit rating give us sufficient financial power to be agile while leveraging opportunities.

Treasury policy, financing activities and debt structure

We manage financial risks in accordance with guidelines laid down in our treasury policy, which is approved by the Board. The treasury policy is designed to manage the Remaining Group's currency, interest rate and counterparty risks. Surplus funds are generally placed on short term deposits denominated primarily in United States dollars and Hong Kong dollars. The Remaining Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

As at 30 June 2013, the net debt of the Remaining Group was HK$946 million with a net debt-to-net total capital ratio of 2%. The profile of the Remaining Group's external borrowings, after taking into account interest rate and cross currency swaps, was as follows:

(1) 45% were in Australian dollars and 55% were in Pounds Sterling;

(2) 100% were bank loans;

(3) 100% were repayable between 2 and 5 years;

(4) 76% were in fixed rate and 24% were in floating rate.

The Remaining Group's policy is to maintain a portion of our debt at fixed interest rates. Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

Currency and interest rate risks are actively managed in accordance with the Remaining Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control counterparty risk exposure.

Currency exposure arising from investments outside Hong Kong is, where considered appropriate, mitigated by financing those investments in local currency borrowings and by entering into forward foreign exchange contracts. Foreign currency fluctuations will affect the translated value of the net assets of investments outside Hong Kong and the resultant translation difference is included in the Remaining Group's reserve account. Income received from the Remaining Group's investments outside Hong Kong which is not denominated in Hong Kong dollars is, unless otherwise determined, converted into Hong Kong dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 30 June 2013 amounted to HK$22,035 million.

Charges on assets, contingent liabilities and capital commitments

At 30 June 2013, the Remaining Group's interest in an associate of HK$643 million had been pledged as part of the security to secure financing facilities granted to the associate.

As at 30 June 2013, the Remaining Group had given guarantees and indemnities totalling HK$923 million.

The Remaining Group's capital commitments outstanding at 30 June 2013 and not provided for in the financial statements amounted to HK$2,107 million and were for investment in an associate.

Employees

The Remaining Group continues its policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Remaining Group's total remuneration costs for the six months ended 30 June 2013, excluding directors' emoluments, amounted to HK$57 million. As at 30 June 2013, the Remaining Group employed 142 permanent employees. No share option scheme is in operation.

The following is the text of a letter received from the Financial Adviser, which is prepared for the purpose of incorporation in this circular.

HSBC

The Board of Directors
Power Assets Holdings Limited (the "**Company**")
44 Kennedy Road, Hong Kong

16 December 2013

Dear Sirs,

We refer to (a) the forecast of the consolidated profit attributable to the equity shareholder of The Hongkong Electric Company, Limited ("**HEC**") for the financial year ending 31 December 2013 (the "**2013 Profit Forecast**") and (b) the projection of the consolidated profit attributable to the holders of share stapled units jointly issued by HK Electric Investments and HK Electric Investments Limited ("**HKEIL**") for the period from 29 January 2014 (the "**Listing Date**") to 31 December 2014 (the "**2014 Profit Projection**"), as set out in the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in the "*Letter from the Board*" of the circular of the Company dated 16 December 2013 (the "**Circular**").

We understand that the 2013 Profit Forecast and the 2014 Profit Projection, for which the directors of the Company, the directors of HK Electric Investments Manager Limited, in their capacity as the directors of the proposed trustee-manager of HK Electric Investments, and the directors of HKEIL (collectively, the "**Directors**") are solely responsible, have been prepared by them based respectively on (i) the audited consolidated results of HEC and its subsidiary (the "**Disposal Group**") for the nine months ended 30 September 2013, the unaudited consolidated results of the Disposal Group based on the management accounts for the two months ended 30 November 2013 and a forecast of the consolidated results of the Disposal Group for the remaining one month ending 31 December 2013 and (ii) the projection of the consolidated results of HK Electric Investments and HKEIL and its subsidiaries (the "**HKEIL Group**") upon the completion of the reorganisation of the HKEIL Group for the period from the Listing Date to 31 December 2014.

We have discussed with you the bases and assumptions made by the Directors as set out in the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in the "*Letter from the Board*" in the Circular. We have also considered the letters dated 16 December 2013 addressed to you from KPMG regarding the accounting policies and calculations upon which the 2013 Profit Forecast and the 2014 Profit Projection have been based.

On the basis of the information comprising the 2013 Profit Forecast and the 2014 Profit Projection and on the bases and assumptions of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the 2013 Profit Forecast and the 2014 Profit Projection, for which the Directors are solely responsible, have been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
The Hongkong and Shanghai Banking Corporation Limited

Anne Kao
Managing Director,
Resources and Energy Group

The following is the text of letters received from KPMG, Certified Public Accountants, Hong Kong, in connection with the 2013 Profit Forecast and the 2014 Profit Projection, which are prepared for the purpose of incorporation in this circular.

(A) LETTER FROM THE REPORTING ACCOUNTANTS ON THE 2013 PROFIT FORECAST

KPMG

The Directors
Power Assets Holdings Limited
44 Kennedy Road, Hong Kong

16 December 2013

Dear Sirs,

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit attributable to the equity shareholders of The Hongkong Electric Company, Limited ("**HEC**") for the year ending 31 December 2013 (the "**2013 Profit Forecast**"), for which the directors of Power Assets Holdings Limited (the "**Company**"), the directors of HK Electric Investments Manager Limited (in their capacity as the directors of the trustee-manager of HK Electric Investments) (the "**Trustee-Manager**"), the directors of HK Electric Investments Limited ("**HKEIL**") and the directors of HEC (collectively, the "**Directors**") are solely responsible, as set forth in the sub-section "*2013 Profit Forecast*" under the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in the "*Letter from the Board*" in the circular of the Company dated 16 December 2013 (the "**Circular**").

The 2013 Profit Forecast has been prepared by the Directors based on the audited consolidated results of HEC and its subsidiary (collectively referred to as the "**Disposal Group**") for the nine months ended 30 September 2013, the unaudited consolidated results of the Disposal Group based on the management accounts for the two months ended 30 November 2013 and a forecast of the consolidated results of the Disposal Group for the remaining one month ending 31 December 2013.

In our opinion, so far as the accounting policies and calculations are concerned, the 2013 Profit Forecast has been properly compiled in accordance with the assumptions made by the Directors as set out in the section headed "*2013 Profit Forecast and 2014 Profit Projection*" relating to the 2013 Profit Forecast of the "*Letter from the Board*" in the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by HEC as set out in the accountants' report dated 16 December 2013, the text of which is set out in Appendix II of the Circular.

Yours faithfully,

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

(B) LETTER FROM THE REPORTING ACCOUNTANTS ON THE 2014 PROFIT PROJECTION

KPMG

The Directors
Power Assets Holdings Limited
44 Kennedy Road, Hong Kong

16 December 2013

Dear Sirs,

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the projection of the consolidated profit attributable to holders of share stapled units jointly issued by HK Electric Investments and HK Electric Investments Limited ("**HKEIL**") for the period from 29 January 2014 (the "**Listing Date**") to 31 December 2014 (the "**2014 Profit Projection**"), for which the directors of Power Assets Holdings Limited (the "**Company**"), the directors of HK Electric Investments Manager Limited (in their capacity as the directors of the trustee-manager of HK Electric Investments) and the directors of HKEIL (collectively, the "**Directors**") are solely responsible, as set forth in the sub-section "*2014 Profit Projection*" under the section headed "*2013 Profit Forecast and 2014 Profit Projection*" in the "*Letter from the Board*" of the circular of the Company dated 16 December 2013 (the "**Circular**").

The 2014 Profit Projection has been prepared by the Directors based on a forecast of the consolidated results of HK Electric Investments and HKEIL together with the subsidiaries of HKEIL upon the completion of the reorganisation of the group (including the acquisition of The Hongkong Electric Company, Limited ("**HEC**") in preparation for the listing using acquisition accounting) (collectively, the "**Trust Group**") for the period from the Listing Date to 31 December 2014.

In our opinion, so far as the accounting policies and calculations are concerned, the 2014 Profit Projection has been properly compiled in accordance with the assumptions made by the Directors as set out in the section headed "*2013 Profit Forecast and 2014 Profit Projection*" relating to the 2014 Profit Projection of "*Letter from the Board*" of the Circular and is presented on a basis consistent in all material respects with the accounting policies expected to be adopted by the Trust Group.

Yours faithfully,

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

(a) Interests in Shares of the Company and shares of associated corporations

As at the Latest Practicable Date, the interests 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) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Long Positions in Shares of the Company

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

Notes:

(1) These shares are held by subsidiaries of CKI.

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

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

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a Director of CKH, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH, the shares of CKI held by the subsidiary of HWL and the shares of the Company held by the subsidiaries of CKI under the SFO as a Director.

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

Save as disclosed above, as at the Latest Practicable Date, 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) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) **Common directors**

The following is a list of the Directors who, as at the Latest Practicable Date, were also directors of the companies which have 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:

Name of Common Director	**Name of Company**
FOK Kin Ning, Canning KAM Hing Lam LI Tzar Kuoi, Victor George Colin MAGNUS Frank John SIXT	Cheung Kong (Holdings) Limited
FOK Kin Ning, Canning CHAN Loi Shun CHOW WOO Mo Fong, Susan Andrew John HUNTER KAM Hing Lam LI Tzar Kuoi, Victor Frank John SIXT TSO Kai Sum George Colin MAGNUS	Cheung Kong Infrastructure Holdings Limited
KAM Hing Lam LI Tzar Kuoi, Victor	Hyford Limited
CHOW WOO Mo Fong, Susan KAM Hing Lam	Interman Development Inc.
LI Tzar Kuoi, Victor Frank John SIXT	Li Ka-Shing Unity Trustcorp Limited
LI Tzar Kuoi, Victor Frank John SIXT	Li Ka-Shing Unity Trustee Company Limited
LI Tzar Kuoi, Victor Frank John SIXT	Li Ka-Shing Unity Trustee Corporation Limited
CHOW WOO Mo Fong, Susan KAM Hing Lam	Monitor Equities S.A.
CHOW WOO Mo Fong, Susan KAM Hing Lam	Univest Equity S.A.
CHOW WOO Mo Fong, Susan KAM Hing Lam	Venniton Development Inc.

Name of Common Director	Name of Company
FOK Kin Ning, Canning CHOW WOO Mo Fong, Susan KAM Hing Lam LI Tzar Kuoi, Victor Frank John SIXT Holger KLUGE George Colin MAGNUS WONG Chung Hin	Hutchison Whampoa Limited
FOK Kin Ning, Canning CHOW WOO Mo Fong, Susan KAM Hing Lam LI Tzar Kuoi, Victor Frank John SIXT	Hutchison International Limited
CHOW WOO Mo Fong, Susan Neil Douglas MCGEE Frank John SIXT	Hutchison Infrastructure Holdings Limited

(c) **Service contracts**

At the Latest Practicable Date, none of the Directors or any proposed Director had entered into any service contract with the Group other than contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

(d) **Interests in assets of the Group**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which were, since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

(e) **Interests in contracts and arrangements**

None of the Directors had material interest in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the businesses of the Group.

(f) **Interest in competing business**

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

Name of Director	Name of Company	Nature of Interests
FOK Kin Ning, Canning	Cheung Kong (Holdings) Limited	Non-executive Director
	Hutchison Whampoa Limited	Group Managing Director
	Cheung Kong Infrastructure Holdings Limited	Deputy Chairman
	Husky Energy Inc.	Co-Chairman
CHAN Loi Shun	Cheung Kong Infrastructure Holdings Limited	Executive Director and Chief Financial Officer
	Envestra Limited	Director
CHOW WOO Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director
	Cheung Kong Infrastructure Holdings Limited	Executive Director and Alternate Director
Andrew John HUNTER	Cheung Kong Infrastructure Holdings Limited	Deputy Managing Director
KAM Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director
	Hutchison Whampoa Limited	Executive Director
	Cheung Kong Infrastructure Holdings Limited	Group Managing Director
Holger KLUGE	Hutchison Whampoa Limited	Independent Non-executive Director
LI Tzar Kuoi, Victor	Cheung Kong (Holdings) Limited	Managing Director and Deputy Chairman
	Hutchison Whampoa Limited	Deputy Chairman
	Cheung Kong Infrastructure Holdings Limited	Chairman
	Husky Energy Inc.	Co-Chairman
George Colin MAGNUS	Cheung Kong (Holdings) Limited	Non-executive Director
	Hutchison Whampoa Limited	Non-executive Director
	Cheung Kong Infrastructure Holdings Limited	Non-executive Director
	Husky Energy Inc.	Director

Name of Director	Name of Company	Nature of Interests
Neil Douglas MCGEE	Husky Energy Inc.	Director
Frank John SIXT	Cheung Kong (Holdings) Limited	Non-executive Director
	Hutchison Whampoa Limited	Group Finance Director
	Cheung Kong Infrastructure Holdings Limited	Executive Director
	Husky Energy Inc.	Director
TSO Kai Sum	Cheung Kong Infrastructure Holdings Limited	Non-executive Director
WONG Chung Hin	Hutchison Whampoa Limited	Independent Non-executive Director

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

As at the Latest Practicable Date, save as disclosed above, none of the Directors, proposed Directors or their respective associates (as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any interest in a business, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

3. CERTAIN LEGAL AND REGULATORY MATTERS

(a) Litigation

On 1 October 2012, a passenger catamaran collided with one of HEC's passenger launches near Lamma Island. The collision resulted in loss of life and injuries and led to the following inquiry, litigation and claims:

(i) On 22 October 2012, the Chief Executive in Council appointed The Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012 (the "**Commission**") to inquire into the facts and circumstances leading to and surrounding the collision. HEC was one of the parties involved in the inquiry. The Commission released a redacted version of its report on 30 April 2013 in which, among other things, recommendations were made to improve vessel safety. HEC has fully implemented the recommendations made by the Commission that are applicable to its operations.

(ii) On 19 August 2013, the Hong Kong Magistrates' Court fined HEC HK$900 for failure to deploy four crew members on HEC's passenger launch as required under its operating licence. HEC has filed an appeal against the conviction on 30 August 2013. On a review of the level of fine applied for by the prosecution held on 25 October 2013, the Hong Kong Magistrates' Court increased the fine from HK$900 to HK$4,500.

(iii) In light of the loss of life and injuries as a result of the collision, claims have been made, and HEC expects further claims to be made against HEC. As at the Latest Practicable Date, HEC was unable to quantify the total amount of claims made and potential claims which may be made against HEC. HEC has insurance policies taken out for the passenger launch, HEC's employees and other passengers, which HEC believes will provide sufficient insurance coverage for such claims.

There are tax disputes with the Australian Tax Office ("**ATO**") concerning the South Australian electricity distribution businesses, SA Power Networks and Victoria Power Networks Pty Ltd, which own the CitiPower and Powercor businesses. In connection with these disputes:

(i) A subsidiary of the Company has paid to the ATO, as of the Latest Practicable Date, total payments of 67 million Australian dollars, being 50% (which percentage is based on ATO customary practice) of the tax in dispute, including interest and penalties, claimed by the ATO pending resolution of a dispute regarding the deductibility of certain fees paid by that subsidiary for income tax purposes. The subsidiary is of the view that the fees are deductible, that no amount should be payable to the ATO and that the amount paid is expected to be recoverable from the ATO. The subsidiary has obtained legal advice and will vigorously defend its position.

(ii) There is a claim by the ATO against the Company, for which the Company has sought legal advice since the dispute arose and has been of the view that the Company has a good case to resist the claim and will vigorously defend its position.

As at the Latest Practicable Date, save as disclosed above, neither the Company nor any of its subsidiaries was engaged in any litigation, claim or arbitration of material importance, nor, to the best of the knowledge of the Directors, is any litigation, arbitration or claim of material importance pending or threatened against the Company or any of its subsidiaries.

(b) **Regulatory matters**

HEC has challenged the Commissioner of Rating and Valuation's assessment of certain rates and government rent which are payable by HEC in relation to its properties for a number of years starting from 2004/2005. HEC has received some, and expects to receive further, refunds of such rates and government rent from the Hong Kong Government in this regard. The Hong Kong Government and HEC have not been able to reach a consensus as to how those refunds should be treated, and are in the course of resolving the appropriate manner in dealing with those refund amounts. As at the Latest Practicable Date, all such rates and government rent received had been recorded as HEC's trade and other payables and, accordingly, the outcome of the resolution with the Hong Kong Government was not expected to have any material adverse impact on HEC's profit.

4. EXPERTS AND CONSENTS

The following are the experts, and their qualifications, who have given their advice or opinion contained in this circular:

Name	Qualification
Somerley Limited	A corporation licensed to carry on Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off
KPMG	Certified Public Accountants
The Hongkong and Shanghai Banking Corporation Limited	A registered institution under the SFO, registered to conduct Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts), Type 4 (Advising on Securities), Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)

Each of Somerley, KPMG and The Hongkong and Shanghai Banking Corporation Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report as set out in this circular and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, neither Somerley nor KPMG was beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, nor did they have any direct or indirect interest in any assets which had been, since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

HSBC Holdings plc (the holding company of The Hongkong and Shanghai Banking Corporation Limited) together with its subsidiaries held 23,230,137 Shares in aggregate as at 10 December 2013, representing approximately 1.1% of the total issued share capital of the Company. Save as disclosed above, as at 10 December 2013, The Hongkong and Shanghai Banking Corporation Limited was not beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, and it did not have any direct or indirect interest in any assets which had been, since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

5. MATERIAL CONTRACTS

No contracts (not being contracts entered into in the ordinary course of business) which are or may be material have been entered into by the members of the Group within two years preceding the date of this circular.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's registered office at 44 Kennedy Road, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) from the date of this circular up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the published annual reports of the Company for the years ended 31 December 2011 and 2012;

(iii) the published interim report of the Company for the six months ended 30 June 2013;

(iv) the letter from the Independent Board Committee, the text of which is set out on page 62 of this circular;

(v) the letter from the Independent Financial Adviser, the text of which is set out on pages 63 to 92 of this circular;

(vi) the report from KPMG, the reporting accountants of the Company on the financial information of the Disposal Group, the text of which is set out in Appendix II to this circular;

(vii) the report from KPMG, the reporting accountants of the Company on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;

(viii) the letter from the Financial Adviser in relation to the 2013 Profit Forecast and the 2014 Profit Projection, the text of which is set out in Appendix V to this circular;

(ix) the letters from KPMG, the reporting accountants of the Company in relation to the 2013 Profit Forecast and the 2014 Profit Projection respectively, the text of which is set out in Appendix VI to this circular;

(x) the written consents as referred to in the paragraph headed "*Experts and Consents*" in this appendix; and

(xi) this circular.

7. GENERAL

(i) The company secretary of the Company is Mr. NG Wai Cheong, Alex, *LLB*.

(ii) The registered office of the Company is at 44 Kennedy Road, Hong Kong.

(iii) The share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) The English text of this circular, the notice of the EGM and the accompanying proxy form shall prevail over their respective Chinese texts in case of inconsistency.

Power Assets Holdings Ltd.
電能實業有限公司

Incorporated in Hong Kong with limited liability
Stock Code: 6

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Power Assets Holdings Limited (the "**Company**") will be held at the Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Monday, 6 January 2014 at 10:30 a.m. for the purpose of considering and, if appropriate, passing, with or without modification, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:-

(a) the Proposed Spin-off (as defined below) and all documents, agreements and other actions necessary or, in the opinion of the directors of the Company, desirable to be issued, entered into or taken in connection therewith or contemplated thereunder or for the purpose of giving effect thereto (including but not limited to the Sale and Purchase Agreement (as defined below), the Non-Competition Undertaking (as defined below), the underwriting agreements and the stock borrowing agreement to be entered into in connection with the Global Offering (as defined below)), be and are hereby approved; and

(b) the directors of the Company (acting collectively and individually) be and are hereby authorised on behalf of the Company to approve and implement the Proposed Spin-off and all matters incidental thereto and to take all actions in connection therewith or arising therefrom relating to the Proposed Spin-off as they shall think necessary or desirable (including, without limitation, (i) to sign, seal, execute, perfect and deliver and perform any documents, instruments and agreements for and on behalf of the Company in connection with or pursuant to the Proposed Spin-off (including but not limited to the Sale and Purchase Agreement, the Non-Competition Undertaking, the underwriting agreements and the stock borrowing agreement to be entered into in connection with the Global Offering); and (ii) to exercise all such powers and do all such acts as they consider necessary, desirable or expedient to give effect to the Proposed Spin-off)."

For the purposes of the above resolution, the following expressions bear their respective meanings:

"**Proposed Spin-off**"	the proposed spin-off of the Group's Hong Kong Electricity Business (as defined in the Circular referred to below) operated by The Hongkong Electric Company, Limited and separate listing of the Share Stapled Units (as defined in the Circular), as described in the Company's circular dated 16 December 2013 (the "**Circular**") in which this notice is set out (provided that the Minimum Trust Group Market Capitalisation (as defined in the Circular) of HK$48 billion is achieved)

"**Sale and Purchase Agreement**"	has the meaning given to that expression in the Circular
"**Global Offering**"	has the meaning given to that expression in the Circular
"**Non-Competition Undertaking**"	has the meaning given to that expression in the Circular

By Order of the Board
Power Assets Holdings Limited
Alex Ng
Company Secretary

Hong Kong, 16 December 2013

Registered Office:
44 Kennedy Road, Hong Kong

Notes:

(1) At the EGM, the Chairman of the Meeting will exercise his power under article 80 of the Company's articles of association to put the above resolution to vote by way of poll.

A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and on a poll, vote for him. A proxy need not be a member of the Company. To be valid, the enclosed proxy form must be completed in accordance with the instructions printed thereon and deposited at the registered office of the Company, 44 Kennedy Road, Hong Kong, not later than 48 hours before the time for holding the EGM. Completion and return of the enclosed proxy form will not preclude a member from attending and voting in person at the EGM or at any adjourned meeting thereof should such member so wish.

(2) The register of members of the Company will be closed from Thursday, 2 January 2014 to Monday, 6 January 2014 (both days inclusive), during which no transfer of shares will be effected. To qualify for the right to attend and vote at the EGM (or any adjournment thereof), all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 31 December 2013.

(3) Members are advised to read the circular to shareholders of the Company dated 16 December 2013 which contains information concerning the above resolution to be proposed at the EGM.

(4) A transportation guide to Harbour Grand Kowloon is despatched to shareholders together with the circular mentioned in Note (3) above. Shareholders may also access the Company's website at www.powerassets.com under 'What's New' > 'Notice of Extraordinary General Meeting' to view the transportation guide and schedule of the complimentary shuttle bus service to/from the EGM venue.

(5) If typhoon signal no. 8 or above remains hoisted or a black rainstorm warning signal is in force at 8:00 a.m. on the date of the EGM, the EGM will be postponed or adjourned. Shareholders are requested to visit the website of the Company at www.powerassets.com for details of alternative meeting arrangements. If shareholders have any queries concerning the alternative meeting arrangements, please call the Company at (852) 2843 3111 during business hours from 9:00 a.m. to 5:00 p.m. on Monday to Friday, excluding public holidays.

The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force.

Shareholders should make their own decision as to whether they would attend the EGM under bad weather conditions bearing in mind their own situation and if they should choose to do so, they are advised to exercise care and caution.

(6) In the case of inconsistency between the Chinese translation and the English text of this notice of the EGM, the English text will prevail.