*An investment in the Share Stapled Units involves various risks. You should consider carefully all the information set out in this prospectus and, in particular, the risks and uncertainties described below before making an investment in the Share Stapled Units.*

*As an investment in the Share Stapled Units is meant to produce returns over the long-term, you should not expect to obtain short-term gains. The price of the Share Stapled Units, and the income from them, may rise or fall and may not fully reflect the underlying net assets attributable to them. You may not get back your original investment and you may not receive any distributions.*

*The occurrence of any of the following events could materially and adversely affect our business, financial condition, results of operations or prospects. If any of these events occur, the trading price of the Share Stapled Units could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.*

We believe that there are certain risks and uncertainties associated with our operations and structure and an investment in the Share Stapled Units, some of which are beyond our control.

We have categorised these risks and uncertainties as follows: (a) key regulatory risks relating to our overall business, (b) risks relating to the amount and stability of the distributions, (c) risks relating to our coal-fired, gas-fired and oil-fired power businesses, (d) risks relating to our wind power and solar power businesses, (e) risks relating to our operations, (f) risks relating to the structure of HK Electric Investments and the Company and (g) other risks relating to an investment in the Share Stapled Units.

## A. KEY REGULATORY RISKS RELATING TO OUR OVERALL BUSINESS

**We are a vertically integrated power utility in Hong Kong. Our operations are subject to the Scheme of Control, which is due to expire at the end of 2018. There is no assurance that the Scheme of Control will be renewed on terms that are commercially favourable to us or at all, or that future changes to the Scheme of Control will not have a material adverse effect on our business, financial condition, results of operations and prospects.**

Our electricity business in Hong Kong, including generation, transmission, distribution, supply and tariff setting, is subject to a Scheme of Control entered into among HEC, PAH and the Hong Kong Government. Under the Scheme of Control, we are entitled to charge tariff rates not only to cover our total operating costs, but also to enable the Holders of Share Stapled Units to earn a return in relation to the risks involved and the capital invested and retained in the business. 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 our Average Net Fixed Assets other than those attributable to our Average Renewables Net Fixed Assets for that year and (ii) 11% of the total value of our Average Renewables Net Fixed Assets for that year. Furthermore, the Tariff Stabilisation Fund we are required to maintain under the Scheme of Control allows us to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions where appropriate. The operation of such mechanism could adversely affect our Net Return should a shortfall occur in the Tariff Stabilisation Fund. We experienced such shortfalls in FY2003, FY2004, FY2005 and FY2006, totalling HK$228 million, HK$869 million, HK$288 million and HK$487 million, respectively. The Scheme of Control also requires that we maintain a Fuel Clause Recovery

Account to address any differences between our actual cost of fuel and our standard cost of fuel recovered through the Basic Tariff Rate, as well as a Rate Reduction Reserve, which is used to effect tariff reductions or to minimise tariff increases. See *"Scheme of Control and Regulatory Overview — Scheme of Control — Tariff"* for details.

Through the Scheme of Control, the Hong Kong Government limits the tariffs that we are entitled to charge and also monitors our financial affairs and operating performance through Development Plan reviews and approvals, auditing reviews and tariff reviews. The Scheme of Control also contains performance-based financial incentives and penalties. These performance-based adjustments are taken into account for the purposes of calculating the Net Return for each year. Furthermore, the Scheme of Control may only be amended by agreement of all the parties.

We have operated under a scheme of control regime since 1979. The first Scheme of Control was entered into in 1980 for a term of 15 years beginning on 1 January 1979 and it was renewed in 1993 for a similar term until the end of 2008. The current Scheme of Control was entered into on 7 January 2008 and became effective on 1 January 2009 for a term of ten years expiring on 31 December 2018, with an option for the Hong Kong Government to extend it for a further term of five years. Any decision by the Hong Kong Government to exercise its option to extend the Scheme of Control for a further term of five years is at its sole discretion. If the Hong Kong Government does not exercise such option to extend the term of the Scheme of Control, under the current Scheme of Control we will, for the period from 1 January 2019 to 31 December 2023, through reasonable arrangements determined by the Hong Kong Government after consultation with us, continue to be entitled to earn from the market the same Permitted Return annually which we currently earn under the Scheme of Control (after recovery of tax and total operating costs and subject to deduction of certain interest on borrowed capital for the financing of 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).

The Scheme of Control provides that prior to 1 January 2016, the Hong Kong Government will discuss with HEC regarding potential future changes to the electricity supply regulatory framework in Hong Kong, including market readiness and any potential transitional issues. There can be no assurance that the outcome of such discussions with the Hong Kong Government will be favourable to us.

Under the current Scheme of Control, each of HEC and the Hong Kong Government had the right during FY2013 and, if the term of the current Scheme of Control is extended, has the right during FY2018, to request modifications to the Scheme of Control. However, any modification must be mutually agreed by the parties. In November 2013, as part of the 2013 interim review of the Scheme of Control, we agreed in principle with the Hong Kong Government to implement six modifications to the Scheme of Control, which are summarised as follows: (i) the establishment of an energy efficiency fund to subsidise owners of non-commercial buildings on a matching basis to carry out improvement works to enhance the energy efficiency of their buildings; (ii) higher performance thresholds for both the incentives which may be awarded and penalties which are payable in respect of our supply reliability, operational efficiency and customer services; (iii) lowering of the cap on the balance of the Tariff Stabilisation Fund from 8% to 5% of our annual total revenues from sales of electricity to our customers (including Fuel Cost Account Adjustment and excluding rebates and charges made during that year); (iv) improvement in the public disclosure of certain financial and operating 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) streamlining 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 our pre-project studies and assessments will be initially placed in a separate suspense account and will only be counted as Fixed Assets for the purpose of calculating the Permitted Return after a decision is made to proceed with the projects. The above modifications will take immediate effect once the written agreement modifying the terms of the Scheme of Control is executed by all parties to the Scheme of Control. For further details relating to the 2013 interim review of the Scheme of Control, see *"Scheme of Control and Regulatory Overview — Scheme of Control — 2013 and 2018 Interim Reviews of the Scheme of Control"*. However, 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: (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, our business, financial condition and results of operations could be materially and adversely impacted.

There is no assurance that the Scheme of Control will be renewed on terms that are commercially favourable to us or at all. Should the Scheme of Control be renewed on terms less favourable than those currently in force, we may become subject to tighter tariff caps, a lower Permitted Return, the reduction or elimination of financial incentives and/or other limitations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

**There is no assurance that the terms of future Development Plans will be similar to or more favourable than the current terms.**

The Scheme of Control provides for a tariff setting mechanism for the electricity supplied by us and for a Development Plan which sets out, among other things, the projected Basic Tariff Rate and our projected capital expenditure for each of the five years covered under such Development Plan. The current 2014-2018 Development Plan, which covers the period from 1 January 2014 to 31 December 2018, was approved by the Executive Council on 10 December 2013. The 2014-2018 Development Plan provides for an estimated total investment of approximately HK$13.0 billion in new and existing capital projects over its five year term. Our approved capital expenditure under the 2014-2018 Development Plan includes investments in our power generation system (approximately HK$6.1 billion, inclusive of the estimated HK$3.0 billion in relation to the L10 Project), our transmission and distribution networks (approximately HK$5.3 billion) and our customer and corporate services development (approximately HK$1.6 billion). As part of the approval of the 2014-2018 Development Plan, the projected Basic Tariff Rates for the five years from FY2014 to FY2018 were also approved by the Executive Council. See *"Scheme of Control and Regulatory Overview — Scheme of Control — Development Plan — 2014-2018 Development Plan"* for further details. In addition, under the Scheme of Control, an annual tariff review is carried out to determine the actual Basic Tariff Rate for the following year, which may vary from the projected Basic Tariff Rate which was previously approved for that year by the Executive Council in the latest approved Development Plan. A proposed Basic Tariff Rate for a particular year that is not higher than 5% above the projected Basic Tariff Rate most recently approved for that year by the Executive Council would not require any further approval by the Executive Council. Any proposed Basic Tariff Rate exceeding this limit but not exceeding the limit by more than 5% would require the approval of the Executive Council without a full Development Plan review. However, a proposed Basic Tariff Rate which exceeds the 5% limit referred to above by more than 5% will necessitate a full Development Plan review, following which the approval of the Executive Council will be required. There is no assurance that we would be able to obtain the necessary approvals.

Additionally, a Development Plan review is also conducted (i) when a Development Plan for major additions to our electricity generation, transmission and distribution system has been finalised for review and approval; (ii) when a Development Plan has been finalised for review and approval in respect of major variations to our electricity generation, transmission and distribution system which would increase the projected Basic Tariff Rates significantly above those in the one previously approved; (iii) six months before the period covered by the previous Development Plan expires; and (iv) if, as a result of a tariff review, the proposed Basic Tariff Rate for the following year exceeds the limit equal to 5% above the projected Basic Tariff Rate most recently approved for that year by the Executive Council, by more than 5%. Should (1) the terms of future Development Plans or the Basic Tariff Rate become less favourable to us, including due to any change in government policies or the tariff setting mechanism, (2) our projected capital expenditures be rejected or (3) the approved amount of capital expenditures be substantially lower than expected, our business, financial condition, operating performance, results of operations, targeted installed capacity and prospects may be materially and adversely affected. In particular, should our projected capital expenditures be required to be increased significantly, HEC's credit ratings could be lowered and our cash flow available for distribution or debt service in the near future could be materially reduced.

**We may not achieve our expected level of Permitted Return.**

The current Scheme of Control provides for a Permitted Return for each year equal to (i) 9.99% of the total value of our Average Net Fixed Assets other than those attributable to our Average Renewables Net Fixed Assets for that year and (ii) 11% of the total value of our Average Renewables Net Fixed Assets for that year. However, various reasons may arise which may keep us from achieving our Permitted Return, including differences in expected and actual electricity sales as a result of economic or weather related conditions as well as increases in expenditures above previously projected levels, where there are insufficient funds available in the Tariff Stabilisation Fund. For example, from FY2003 to FY2006 we did not achieve our Permitted Return due to various reasons. If we fail to achieve our Permitted Return in the future, we may be unable to maintain distributions in respect of the Share Stapled Units at a stable level or at similar levels achieved in the past, or in an extreme case, may not have sufficient distributable cash flows or distributable reserves to pay dividends, distributions or other payments to the Trustee-Manager to fully satisfy the distributions in respect of the Share Stapled Units.

**Changes in the structure and regulation of the power industry in Hong Kong may materially and adversely affect us.**

The structure and regulation of the power industry in Hong Kong may change in the future. The Hong Kong Government has in the past implemented, and is expected to continue to implement, new regulatory initiatives for energy, such as renewable energy and emission reduction. Such regulatory initiatives are established in order to ensure a safe, efficient and reliable supply of electricity at a reasonable tariff and with minimal impact on the environment. Furthermore, the Hong Kong Government may repeal, amend, enact or promulgate new or existing laws, rules or regulations, or issue a new interpretation of an existing law, rule or regulation. The Scheme of Control provides for us to recover stranded costs arising as a result of a change or a proposed change implemented by the Hong Kong Government to the electricity market structure, which causes a material impact to us in respect of our Electricity Related activities. Stranded costs are costs incurred by us in relation to our investments made or agreements entered into under the Scheme of Control in respect of our Electricity Related activities.

See *"Scheme of Control and Regulatory Overview — Scheme of Control — Stranded Costs"* for further details. However, there is no assurance that we will be able to recover effectively all of such costs actually incurred and returns foregone pursuant to the Scheme of Control. Further, any possible actions, including modifying or replacing the current Scheme of Control or introducing competition at any or all levels of our business and operations, could potentially cause us to lose market share, require us to reduce our tariffs in order to remain competitive or be costly and difficult to comply with. In addition, any failure to comply with any regulatory changes governing us and the power generation business in Hong Kong may result in financial penalties or administrative or legal proceedings against us. The occurrence of any of the above could materially reduce our net income and cash flows and materially and adversely affect our reputation.

**Changes to the Hong Kong Government's fuel mix policy or Air Pollution Control Ordinance may adversely affect the level of our capital expenditures and our future electricity generation capacity.**

We are subject to the Hong Kong Government's fuel mix and air quality policies. The Hong Kong Government has proposed a fuel mix policy in 2010 with the goal of optimising the fuel mix for power generation and significantly reducing reliance on fossil fuels. Under this policy, the proposed fuel mix for electricity generation by 2020 shall consist of imported nuclear energy, natural gas, coal and renewable energy accounting for approximately 50%, 40%, less than 10% and 3% to 4% of the total fuel mix, respectively. However, with the recent issues that have arisen with respect to nuclear power in Japan, it is uncertain whether the Hong Kong Government will implement all aspects of this policy, as the Hong Kong Government has indicated that it may alter or reconsider its current fuel mix proposal. Recently, the Hong Kong Government has indicated that it will undertake a public consultation as part of its fuel mix policy review. There is no certainty on the timing during which such review will commence or be completed. Any delay in the completion of this fuel mix policy review could possibly impact the commencement of our L10 Project. Accordingly, the L10 Project has only been approved on a provisional basis and is subject to the receipt of a written confirmation from the Hong Kong Government to HEC following such review. In addition, the Hong Kong Government may propose that we import electricity directly from southern China as a means of achieving the objectives of the fuel mix policy. Such proposal may expose us to additional competition or affect the future levels of our electricity generation and sales. Any new fuel mix policy (including the importation of nuclear energy which would require the construction and development of large scale energy infrastructure) may require significant capital expenditures and may adversely affect our future production capacity, profitability and short-term cash flow and liquidity.

In addition, in 2008, the Hong Kong Government stipulated certain emission caps for 2010 and beyond through the Technical Memorandum for Allocation of Emission Allowances in respect of Specified Licenses. In addition to the above, the Hong Kong Government currently prohibits the installation of new coal-fired generating units, imposes stringent emission caps, and links the Permitted Return to our compliance with these emission cap requirements. Failure to comply with the requirements of the Air Pollution Control Ordinance or any prohibitions enforced by the Hong Kong Government could result in financial penalties and other sanctions being enforced against us.

## B. RISKS RELATING TO THE AMOUNT AND STABILITY OF THE DISTRIBUTIONS

**The Trustee-Manager may not be able to pay or maintain distributions to Holders of Share Stapled Units and such distributions may not be stable as they are dependent on a number of factors, including the financial performance of the Group and the ability of the Group to generate sufficient cash flows.**

The objectives of HK Electric Investments and the Company are (i) to focus principally on the payment of distributions to Holders of Share Stapled Units with a clearly expressed intention as to their respective distribution policies stated in the Trust Deed and the Company's Articles and (ii) to provide Holders of Share Stapled Units with stable distributions with the potential for sustainable long-term growth of such distributions.

The Trustee-Manager will rely on the receipt of dividends, distributions and other amounts from the Company to make distributions (on behalf of HK Electric Investments) to the Holders of Share Stapled Units. There is no assurance that the Company or other members of the Group will have sufficient distributable cash flows or other distributable reserves in the future to pay dividends, distributions or other payments to the Trustee-Manager and, consequently, there is no assurance as to the ability of the Trustee-Manager to pay or maintain distributions in respect of the Share Stapled Units or that such distributions will be stable.

The ability of members of the Group to pay dividends, make distributions, repay shareholder loans or make loans or other payments to their holding companies and, in the case of the Company, to the Trustee-Manager, are dependent on a number of factors, including those set out below:

- their business, financial condition, results of operations and cash flows;
- our Net Return under the Scheme of Control;
- the operation of the Fuel Clause Recovery Account;
- applicable laws, rules, regulations, government policies and measures, which may restrict or adversely impact the payment of distributions or the amount capable of distribution by members of the Group;
- changes in applicable accounting standards, corporate laws, laws, rules and regulations in respect of tax, foreign exchange and the repatriation of funds, and regulations relating thereto in the jurisdictions where the members of the Group are currently incorporated, being Hong Kong, the Cayman Islands and the BVI;
- the terms of the agreements to which the members of the Group are, or may become, a party;
- the payment of interest and principal on outstanding indebtedness;
- compliance with financial undertakings and covenants imposed under the Loan Facilities and the Group's future indebtedness which may require us to set aside amounts which would otherwise be available for distribution or restrict us from paying any dividend or distribution; and

- funding requirements of the Group, taking into account the prevailing business environment and operations, expansion plans, capital management considerations, the availability of financing, the overall stability of distributions and prevailing industry practice.

The occurrence of, or any adverse change in, any of these or other factors may materially limit the amount of dividends, distributions and other amounts received by the Trustee-Manager from the Company, and consequently, there is no assurance as to the ability of the Trustee-Manager to pay or maintain distributions in respect of the Share Stapled Units or that such distributions will be stable or that the level of distributions will increase over time. See *"Distributions"* for further details.

## C. RISKS RELATING TO OUR COAL-FIRED, GAS-FIRED AND OIL-FIRED POWER BUSINESSES

**We are subject to the volatility of coal, natural gas and ultra low sulphur diesel oil prices, and we may encounter difficulties in immediately passing on sudden or significant increases in such prices to our customers.**

We use coal, natural gas and ultra low sulphur diesel oil to fuel our coal-fired, gas-fired and oil-fired generating units. As a result, we are exposed to the risk of increases in fuel costs. Our actual fuel costs represented approximately 34.6%, 39.6% and 39.7% of our Gross Tariff Revenue for FY2010, FY2011 and FY2012, respectively. The prices of coal, natural gas and ultra low sulphur diesel oil are determined by market forces based on a number of factors, including, but not limited to, global demand and supply, weather conditions, the availability of competitively priced alternative energy sources, commodity futures, well-head prices, costs of transportation and general market conditions. We have entered into supply contracts for our coal, natural gas and ultra low sulphur diesel oil supply. However, such contracts may be modified or may not be renewed on terms that are commercially favourable to us, or at all.

Under the Scheme of Control, any difference between the standard cost of fuel as agreed with the Hong Kong Government and the actual cost of fuel consumed is charged (or rebated) to customers by adding to (or deducting from) the Basic Tariff Rate to produce a net tariff payable by customers. However, if there is a sudden or significant increase in the price of coal, natural gas or ultra low sulphur diesel oil, the Hong Kong Government may not permit us to pass on the full increase within a single year and may require that we recover any remaining portion in the following years, particularly where the Hong Kong Government feels that such an increase would not be in the interests of customers of electricity or that the increase may have adverse political or public relations consequences. Such an occurrence could affect our short-term liquidity and financial condition.

**Interruptions or shortages in the supply of coal, natural gas and ultra low sulphur diesel oil may result in significant disruption to the operations of our coal-fired, gas-fired and oil-fired generating units.**

Our coal-fired, gas-fired and oil-fired generating units rely on coal, natural gas and ultra low sulphur diesel oil, respectively, as a fuel source. We purchase our coal, natural gas and ultra low sulphur diesel oil from a limited range of suppliers. During the Track Record Period, we purchased substantially all of the coal we used from suppliers in Indonesia, Australia and Russia, and substantially all of our natural gas from suppliers in Western Australia and Qatar. We have coal, natural gas and ultra low sulphur diesel oil supply contracts in place. However, such contracts may expire, and may not be renewed on favourable or comparable terms or at all. In addition, we may be unable to obtain sufficient quantities of coal, natural gas or ultra low sulphur diesel oil in the future as a result of a variety of factors, including a significant increase in regional or global demand for coal, natural gas or ultra low sulphur diesel oil, a significant decrease in the regional or global supply of coal, natural gas or ultra low sulphur diesel oil, natural disasters, severe weather conditions, political conflicts or unrest, construction or maintenance delays, breakdowns, accidents and unforeseen engineering, environmental or geological problems. For example, we experienced a sourcing issue in early 2011 when certain areas of Australia suffered from flooding which caused interruptions to the export of coal, which we responded to by switching coal sourcing to Indonesia. Furthermore, we may not be able to obtain a sufficient amount of coal, natural gas or ultra low sulphur diesel oil that meets our quality standards. If we are unable to obtain a sufficient supply of fuel to satisfy our production requirements, our business, financial condition, results of operations and prospects may be materially and adversely affected.

## D. RISKS RELATING TO OUR WIND POWER AND SOLAR POWER BUSINESSES

**The commercial viability and profitability of our wind and solar power facilities are dependent on weather conditions and the performance of our wind turbines and amorphous silicon TFPV system.**

Our current wind and solar power facilities rely on natural conditions, principally wind and sunlight, for the production of electricity. In selecting sites for the development of these power projects, we base our decisions in part on the historical meteorological, oceanographical and topographical data of the proposed area after verification by our external consultants, as well as the on-site exploration conducted by our technicians. There is no assurance that the actual natural conditions will conform to the historical measured data or that the assumptions we make during our assessment are correct. Moreover, even if actual natural conditions are consistent with our assessment, such conditions may be affected by variations in weather patterns which may change over time to the detriment of our projects.

In addition, our wind and photovoltaic generation facilities rely on the operating performance of our wind turbines and amorphous silicon TFPV system. Non-performance or under-performance of a wind turbine or such photovoltaic system will reduce the power generated by such facilities. As a result of these factors, the electricity generated by our wind and photovoltaic power projects may fall below historical and projected yields, which could in turn materially and adversely affect our business, financial condition and results of operations.

**There are a number of factors that affect the development of our wind power projects.**

Various factors, including some that are beyond our control, affect the development of our wind power projects. These factors include government approvals, local wind resources, topographic constraints, the proximity to and availability of grid connections and capacity and environmental concerns.

Subject to the determination of the fuel mix policy for electricity generation in Hong Kong by the Hong Kong Government, which is currently under review, we plan to develop an offshore wind farm in the Southwest Lamma Channel, with an expected generating capacity of up to approximately 100 MW (representing approximately 1% to 2% of our annual electricity output). For details, see *"Industry Overview — The Electricity Market in Hong Kong — Electricity Sources and Fuel Supply — Reducing Carbon Footprint"*. Wind measurement for the proposed wind farm was completed in February 2013, and a projected feasibility study was submitted to the Hong Kong Government for approval in April 2013. There can be no assurance that construction of the project will proceed as planned or be completed on time or at all due to, among others, failure to obtain or delay in obtaining government approvals, construction delays or other unforeseen circumstances. If we are unable to develop the planned wind farm at the Southwest Lamma Channel or at other suitable new sites in the future, we may be unable to expand our wind power business in a timely manner or at all, which could materially increase our construction cost budget, decrease our net income and affect our renewable energy development plan.

**The development and profitability of our renewable energy business depend on Hong Kong Government policies and incentives that support renewable energy.**

The development and profitability of our renewable energy business, including our wind and solar power facilities, to a significant extent depend on favourable government policies and incentives. In particular, the Hong Kong Government has adopted policies and established a regulatory framework to encourage the development of renewable energy projects. For example, under the Scheme of Control, we are entitled to a Permitted Return of 11% of the total value of our Average Renewables Net Fixed Assets, and we benefit from a Renewable Energy Incentive based on our renewable energy performance. Our renewable energy performance is determined based on the proportion of the volume of electricity generated by our renewable energy systems approved by the Hong Kong Government to our total volume of power generated. The Hong Kong Government has expressed its intention to continue to encourage the development of renewable energy projects through such programs as the fuel mix policy, which promotes the use of renewable energy. However, the Hong Kong Government may, in the future, change or abolish the present incentives and favourable policies that are currently available to us, which could materially and adversely affect the development and profitability, as well as the commercial viability, of our renewable energy business.

## E. RISKS RELATING TO OUR OPERATIONS

**We currently rely on our electricity business in Hong Kong for all of our turnover, exposing us to geographical and concentrated business risks.**

As our turnover is derived from our electricity business in Hong Kong only and we do not engage in any other types of business, any circumstance that adversely affects the operations of our facilities in Hong Kong may adversely affect our business, financial condition and results of operations. If the amount of electricity consumed is significantly reduced, we may be required to transfer larger amounts from the Tariff Stabilisation Fund in order to achieve our Permitted Return, provided that there are sufficient funds in the Tariff Stabilisation Fund. If there were insufficient funds and a shortfall were to occur, we would be required to absorb any amounts in excess of the balance of the Tariff Stabilisation Fund, which could reduce our Net Return. The concentration of our business in one industry may give rise to a higher concentration of risk as compared to other companies that engage in a more diverse range of businesses.

**Our power generation facilities are concentrated in one location in Hong Kong and all of our transmission and distribution facilities, equipment and customers are located on Hong Kong Island and Lamma Island.**

Our power generation facilities are concentrated in one location in Hong Kong and all of our transmission and distribution facilities, equipment and customers are located on Hong Kong Island and Lamma Island. As such, the operations of our electricity business are subject to risks specific to Hong Kong Island and Lamma Island, including but not limited to, decreases in transmission and distribution capacity as a result of equipment failure, changes to tariffs for electricity or sales prices, climate change or catastrophic events, such as typhoons, floods, natural disasters, epidemics or outbreaks, terrorist attacks and changes in overall governmental policies. Given our reliance on (i) a submarine pipeline for the transmission of natural gas to power generation facilities on Lamma Island and (ii) submarine cable circuits for the transmission of electricity produced at our Lamma Power Station to various switching stations on Hong Kong Island, we may be more susceptible to the impact of hydrological disasters than would otherwise be the case. The occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations.

**We could face more intense competition in the future.**

There are currently only two suppliers of electricity in Hong Kong, being us and CLP Power. Although the relevant schemes of control entered into by us and CLP Power, respectively, with the Hong Kong Government do not define a licensed area for our operations or the operations of CLP Power, in practice, we are the only supplier of electricity to customers on Hong Kong Island and Lamma Island while CLP Power is the only supplier of electricity to customers in Kowloon, the New Territories, Lantau and other outlying islands. We and CLP Power own and operate our respective transmission and distribution networks. However, there is no assurance that the Hong Kong Government will not allow other operators, including CLP Power, to supply electricity to Hong Kong Island and Lamma Island, and not require us to allow such other operators to use our transmission and distribution network, which would be similar to the industry practice in a number of other jurisdictions. The Scheme of Control provides for us to recover stranded costs arising as a result of a change or a proposed change implemented by the Hong Kong Government to the electricity market structure, which causes a material impact to us in respect of our Electricity Related activities. Stranded costs are costs incurred by us in relation to our investments made or agreements entered into under the Scheme of Control in respect of our Electricity Related activities. See *"Scheme of Control and Regulatory Overview — Scheme of Control — Stranded Costs"* for further details. However, the entry of another supplier of electricity into the Hong Kong market could potentially increase the amount of competition we face, which may require us to increase both our efforts and costs or to reduce our tariffs in order to remain competitive. Furthermore, the Hong Kong Government may, in the future, adopt new policies common in other jurisdictions, such as introducing additional competition at the power generation, supply and retail levels. For example, the Hong Kong Government may propose that we import electricity directly from southern China as a means of achieving the objectives of the fuel mix policy. Such proposal may expose us to additional competition or affect the future levels of our electricity generation and sales. Any of these possible changes, together with any inability on our part to compete effectively, could materially and adversely affect our business, financial condition and results of operations.

**We rely on submarine and underground cable circuits, overhead lines, substations and switching stations for the transmission and distribution of our electricity, which may be susceptible to damage.**

Our electricity transmission and distribution network utilises submarine and underground cable circuits, overhead lines, substations and switching stations. In addition, our natural gas is transported to our power generation facilities on Lamma Island from Shenzhen, China through our submarine pipeline. Our submarine and underground cable circuits are generally better insulated than overhead lines but are still susceptible to damage. As all of our major equipment may not be easily replaceable, any failure of or disruption in such equipment as a result of natural disasters or other potential catastrophic events, such as typhoons, floods, man-made disasters, or acts of terrorism or intentional damage, or as a result of equipment failure, could materially and adversely affect our capacity to distribute electricity and could be costly or time consuming to rectify. We may also lose turnover through lost electricity sales and our customers may have claims against us for damages. In addition, all of our channels of distribution and transmission require monitoring and regular repair and maintenance. The cost of this may increase over time as our infrastructure ages. The occurrence of any of the above events, independently or in the aggregate, may have a material adverse effect on our business, financial condition and results of operations.

**Our transmission and distribution network could be materially and adversely affected by a disruption of operations at our computerised system control centre.**

Our transmission and distribution network, which comprised 24 switching stations, 27 zone substations and 3,770 distribution substations as at 30 September 2013, is monitored and remotely controlled from our system control centre at Ap Lei Chau 24 hours a day. This system control centre is vulnerable to damage from or interruption by circumstances beyond our control, including but not limited to, fire, power loss, telecommunications failures, computer viruses, break-ins and similar events. Any damage caused by such events may result in interruptions to input, retrieval and transmission of data and may also result in an increase in service time which could disrupt our normal operations. In addition, if the computer systems utilised at our system control centre are disrupted or damaged and our redundant systems or disaster recovery plans cannot address such disruptions or damage, we may not be able to restore our operational capacity within a time frame that avoids a negative impact on our business, including interrupting the operation of our transmission and distribution network, which could result in lost electricity sales and thereby affect our turnover. The occurrence of any of the above events may have a material adverse effect on our business, financial condition and results of operations.

**Our networks and IT systems may be vulnerable to unauthorised persons hacking our systems, which could disrupt our operations and result in the theft of our proprietary information.**

A party who is able to breach the security measures on our networks could misappropriate either our proprietary information or the personal information of our customers, or cause interruptions or malfunctions in our operations. We may be required to expend significant capital and other resources to protect against such threats or to alleviate problems caused by breaches in security, which could have a material adverse effect on our business, financial condition and results of operations.

**Network failures, equipment breakdowns, planned or unplanned outages, adverse weather conditions, catastrophic events, other natural disasters or terrorist attacks may cause losses to or harm our business and reputation.**

Our power generation and transmission and distribution network is vulnerable to human error in operation, equipment failure, catastrophic events, natural disasters, sabotage, terrorist attacks or other events which can cause service interruptions, network failures, breakdowns or unplanned outages. There is no assurance that accidents will not occur or that the preventative measures taken by us will be fully effective in all cases, particularly in relation to external events that are not within our control. Furthermore, our emergency response, disaster recovery and crisis management team may not be able to effectively protect our business and operations from the above disruptions. Moreover, any loss from such events may not be recoverable under our insurance policies. Any service disruption may cause loss or damage to customers, who may seek to recover damages from us and harm our business and reputation. We are also exposed to the potentially high cost of replacing faulty equipment, some of which may be discovered only after the equipment has been installed extensively within our network, requiring a large scale replacement programme, which could have a material adverse effect on our business, financial condition and results of operations.

**Our electricity sales and operating results may fluctuate on a seasonal basis and may be negatively affected by changes in weather conditions and seasonality.**

Our electricity-related business and the number of units of electricity we are able to sell are affected by the supply of and demand for our electricity, which are subject to weather conditions and seasonality. Demand for electricity typically increases during the period when weather conditions in Hong Kong are hot and humid. For example, electricity consumption levels during the third quarter are typically higher than in other quarters. As a result, weather conditions and seasonality may have an impact on demand for our electricity, which could materially and adversely affect our turnover and profit.

**We operate in a capital-intensive business.**

The operation and development of our principal operations require significant capital expenditures. The capital investment required for developing and constructing power facilities and other equipment varies based on the cost of fixed assets and the cost of construction. All capital expenditures approved under the Development Plan will ultimately increase our Net Fixed Assets, which will result in a higher Permitted Return under the Scheme of Control. However, a sudden and significant increase in the costs of developing and constructing our power facilities could materially and adversely affect our short-term liquidity and cash flow.

**There are risks associated with our debt and equity financing and it is possible that we may not be able to secure sufficient debt or equity financing and/or refinancing to fund our required capital expenditures or to support our future investment strategies or operations.**

We require financing to support the growth and expansion of our business. Our ability to obtain financing in the future is subject to a variety of factors, including (i) our future financial condition, operating results and cash flows, (ii) the general condition of the global and domestic financial markets and changes in monetary policy, bank interest rates and lending policies, (iii) our ability to obtain necessary regulatory approvals on a timely basis and (iv) our credit ratings (see the risk factor headed *"— HEC's credit ratings may be subject to change"* below). In the event that our cash flow from operations is not sufficient to fund our planned capital expenditures, we may have to seek additional financing, including equity or debt financing. If we decide to raise additional funds through the issuance of equity securities or securities or other instruments that convert into, exchange for, or permit the issuance of equity securities, the Holders of Share Stapled Units may experience dilution in their interests in the Share Stapled Units.

Furthermore, if we raise additional funds through debt financing, we may be subject to covenants or other restrictions. We may also not be able to secure sufficient debt financing and/or refinancing to fund our required capital expenditures or support our future investment strategies or operations on acceptable terms or at all. If we are unable to secure such funding, we may have to reduce our planned capital expenditures and delay or abandon our expansion plans.

**Changes in interest rates, increases in depreciation and amortisation charges and impairment of goodwill may have a significant impact on our profits and results of operations.**

We are exposed to fluctuations in interest rates. As we rely heavily on third party financing to fund our business, our profits and results of operations are significantly impacted by the cost of debt. Our finance costs were HK$112.9 million, HK$249.2 million, HK$264.9 million and HK$214.6 million for FY2010, FY2011, FY2012 and 9M2013, respectively. During the same periods, the interest rates on our bank loans and MTNs ranged from 0.23% to 4.55%, 0.25% to 4.55%, 0.30% to 4.55% and 0.30% to 4.55%, respectively. The loan from our ultimate holding company is unsecured, interest-free and has no fixed terms of repayment.

As we intend to replace our existing interest-free Inter-company Loans with interest-bearing bank loans, we anticipate that our interest expenses will significantly increase relative to previous years. In particular, in preparation for the Acquisition and the Reorganisation, we have obtained (i) the Company Loan Facility of approximately HK$8,700.0 million and (ii) the HEC Loan Facility of approximately HK$28,300.0 million. The interest rates with respect to the HEC Loan Facility and the Company Loan Facility will be equal to (i) the sum of HIBOR and an interest margin (0.80% per annum) for amounts drawn in Hong Kong dollars, and (ii) the sum of LIBOR and an interest margin (0.80% per annum) for amounts drawn in United States dollars.

In addition, upon completion of the Acquisition, the identifiable assets and liabilities of the Operating 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, and the amount of our depreciation and amortisation charges will also significantly increase. Moreover, goodwill will be created. For an illustration regarding the estimated pro forma amount of fair value adjustments of fixed assets as at 30 September 2013, see note 6 of Section A of *"Appendix II — Unaudited Pro Forma Financial Information"*, which should be read together with Appendix II in its entirety. Increases in our interest charges and depreciation and amortisation charges have been taken into account in the preparation of the 2014 Profit Forecast and will, in future years, continue to impact our profits and profit margins. Please see *"2013 Profit Estimate and 2014 Profit Forecast — 2014 Profit Forecast — Sensitivity Analysis"* for a sensitivity analysis reflecting the impact of interest rates on the 2014 Profit Forecast. Furthermore, the interest rates on our bank loans and other borrowings are determined by market forces and may also increase in the future. If macroeconomic conditions or other factors result in increases in lending rates, our business, financial condition and results of operations may be materially and adversely affected.

We also expect that a material portion of the purchase price for the Acquisition will be allocated to goodwill. Any subsequent impairment of goodwill would be recognised in our consolidated statements of profit or loss. Impairment of goodwill does not result in any cash outflow and would form part of the Adjustments, the effects of which will be eliminated in calculating the Group Distributable Income. Goodwill is required to be assessed for possible impairment at least on an annual basis in accordance with the requirements of prevailing HKFRS. Impairment of goodwill would be required to be recognised in our consolidated statements of profit or loss if the carrying amount of the CGU (i.e., the HEC cash generating unit) to which the goodwill arising from the Acquisition will be allocated exceeds its recoverable amount after the Listing Date. Under HKFRS, the Group may estimate the recoverable amount based on the "value in use" of the CGU by applying a discounted cash flow model, whereby the estimated future cash flows of HEC will be discounted to their present value using a pre-tax discount rate, or may estimate the recoverable amount by calculating the fair value less costs of disposal of HEC.

The two key components which affect the "value in use" under a discounted cash flow model are the estimated cash flow projections and the discount rate. The key factors affecting the estimated cash flow projections include, but are not limited to, operating performance of the business, working capital changes and capital expenditures. The key factors affecting the discount rate include, but are not limited to, equity and debt weighting, risk free rate, market risk premium, beta and the long-term normalised level cost of debt funding. If a discounted cash flow model were to be used to calculate the fair value less costs of disposal of HEC, similar considerations would apply.

Although the normalised level cost of debt funding is not dictated by short-term movements in interest rates, it would increase if macroeconomic conditions or other factors result in expectations that the long-term pre-tax cost of debt funding will increase. Accordingly, while there is no direct correlation between movements in interest rates and impairment of goodwill, a rising interest rate environment may result in a reduction in the "value in use" of the CGU or fair value less costs of disposal of HEC and thereby the recoverable amount and may, in turn, result in impairment of goodwill. As impairment of goodwill would be recognised in our consolidated statements of profit or loss, any such impairment would materially reduce our consolidated profit attributable to the Holders of Share Stapled Units, as well as materially and adversely affect our business, financial condition and results of operations.

**There may be events of default or cross-default provisions under our debt financing that entitle our lenders to terminate such financing.**

We are subject to certain events of default or cross-default provisions under the terms of our bank borrowings. For example, failure by us to meet payment obligations or to comply with any affirmative covenant, such as maintaining specific financial ratios, or any violation by us of any restrictive covenant may constitute an event of default under the terms of our borrowings. See *"Financial Information — Indebtedness"* for more information. If an event of default occurs or a cross-default provision is otherwise triggered, our lenders would be entitled to accelerate payment of all or any part of the outstanding indebtedness and may terminate all commitments to extend further credit. If any event of default were to occur or a cross-default provision were to be triggered, our business, financial condition, results of operations, reputation and cash flow could be materially and adversely affected.

**We had net current liabilities as at 31 December 2011 and 2012 and 30 September 2013. Our indebtedness level could have an adverse effect on our financial condition, diminish our ability to raise additional capital to fund our operations and limit our ability to explore business opportunities.**

We maintain a certain level of indebtedness to finance our operations and capital expenditures. As at 30 September 2013, our total interest bearing borrowings, including MTNs, amounted to HK$13,816.6 million. Our indebtedness could have an adverse effect on us, for example, by:

- requiring us to dedicate a large portion of our cash flow from operations to fund repayments of our debt, thereby reducing the availability of our cash flow;
- increasing our vulnerability to adverse general economic conditions;
- limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such funding; and
- making it more difficult for us to satisfy our obligations with respect to our debt.

In addition, as our indebtedness will require us to maintain an adequate level of cash flow from operations to satisfy our debt obligations as they become due, any decrease in our cash flow from operations in the future may have a material adverse effect on our financial condition. We had net current assets of HK$657.0 million as at 31 December 2010, and net current liabilities of HK$147.4 million, HK$4,826.5 million and HK$971.1 million as at 31 December 2011 and 2012 and 30 September 2013, respectively. We had net current liabilities during the Track Record Period primarily because of (i) increases in the current portion of our bank loans from 31 December 2010 to 31 December 2012, reflecting the shift of bank loans repayable within one year from non-current liabilities to current liabilities, and (ii) increases in our trade and other payables. Our net current liabilities decreased from 31 December 2012 to 30 September 2013, primarily reflecting a decrease in the current portion of our bank loans, primarily due to repayment in accordance with their repayment schedules, funded by (i) amounts made available through a drawdown of facilities with maturity dates beyond one year and (ii) additional amounts made available from the loan from our ultimate holding company.

**HEC's credit ratings may be subject to change.**

HEC's credit rating may be subject to change. HEC intends to maintain an investment grade credit rating. As HEC enters into various financing and facility agreements, including in respect of the HEC Loan Facility, it will raise substantial amounts of incremental debt. Consequently, HEC's credit rating may be reduced as a result of the increases in the amounts of debt, interest payments or capital expenditures. On 7 January 2014, Standard and Poor's issued a press release that stated that the stand-alone credit profile of HEC will likely be "a-" following the Spin-off given its increased debt level. Furthermore, there is no assurance that HEC's credit rating will be restored upon repayment or settlement of any of HEC's outstanding indebtedness. Such reduction may damage HEC's reputation or ability to obtain debt financing in the future, which may delay any expansion plans HEC may have or otherwise restrict HEC's business activities.

**We rely on external parties for the construction of our power facilities and external equipment suppliers and our in-house technical team to operate and maintain our facilities and equipment.**

We generally engage third party contractors, suppliers and civil engineering firms for the construction of our power facilities and for other equipment expansion projects. The successful completion of our projects depends on the ability of these contractors, suppliers and engineers to perform their contractual obligations and is subject to factors beyond our control, including actions or omissions by these parties and their agents and subcontractors. Any setbacks, delays in construction or the delivery of supplies, or any problems relating to the work performed by contractors or engineers that we engage may result in delays in the completion of a project and other unforeseen construction costs or budget overruns, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Furthermore, we rely on suppliers of coal-fired, gas-fired and oil-fired generating units, wind turbines and amorphous silicon TFPV panels to provide part of the operational and maintenance services after each generator, turbine and amorphous silicon TFPV panel commences operation. Under our equipment purchase agreements, suppliers generally undertake to conduct (i) inspection and maintenance services and (ii) component repair or replacement during the warranty period. Our in-house technical team will continue to perform part of the operational and maintenance activities following the expiration of such terms. If our external equipment suppliers or our in-house technical team fail to provide adequate inspection, maintenance or repair works for our key equipment and systems in a timely manner or at all, our electricity generation could be interrupted or delayed, possibly without warning. In addition, we may lose turnover through lost electricity sales and our customers may have claims against us for damages. The occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations.

**We depend on our senior management team and key employees.**

Our historical success is substantially attributable to the contributions of our senior management team and key employees, including those personnel listed in *"The Trustee-Manager and the Company"*. These individuals have a demonstrated ability to execute successfully our business development and expansion strategies, and many of them have extensive experience working in the power industry in Hong Kong and other jurisdictions. Our future success depends significantly on the continued services of these key executives and employees and our ability to continue to retain and recruit senior personnel. We may not be able to locate suitable or qualified replacements for such personnel, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and growth. Furthermore, we face increasing competition in recruiting and retaining quality professionals. Such competition may require us to offer higher compensation and other benefits, which could result in additional costs. Our inability to retain key executives and employees or hire qualified new executives and employees could adversely affect our ability to achieve our objectives and business strategy and could materially and adversely affect our business, financial condition and results of operations.

**Our assets and operations are subject to risks and hazards customary to the power industry and some of our operations could expose us to health and safety claims and accidents.**

Our assets, including, among others, coal-fired, gas-fired and oil-fired generating units, wind turbines, blades, solar panels transformers and interconnection infrastructure, are exposed to significant risks and hazards (including equipment failure, accidents, failure to follow correct operating procedures, fire, earthquake, flood and acts of terrorism) which could result in severe damage to and destruction of property, plant and equipment. Such damage to or destruction of our assets could result in the contamination of, or damage to, the environment and suspension of our operations.

In addition, occupational health and safety is a key risk area in the operation and maintenance of a power generation, transmission and distribution network. There are risks associated with such activities, such as operational risks and hazards caused by circumstances beyond our control, as well as the inherently dangerous nature of maintenance and construction work involving coal-, gas- and oil-firing and electrical generating units, as well as electricity transmission and distribution. We have in the past experienced, and expect to continue to experience, employee claims against us for health and safety related issues and accidents.

Furthermore, our businesses also give rise to the risk of claims by customers or the community as a result of the dangers associated with downed power lines, broken gas mains, oil spills, exhaust fumes from coal-firing and other events caused by the construction, operation and maintenance of our generation, transmission and distribution network as well as other non-operating activities, some of which are beyond our control. In particular, a serious collision accident involving one of our vessels occurred on 1 October 2012.

There is no assurance that our risk management systems can adequately identify, eliminate or manage such environmental and health risks to employees, contractors and the community. The above incidents and risks expose us to potential material liabilities, such as substantial civil liabilities and fines and increased expenses, which may have a material adverse effect on our business, financial condition and results of operations.

**Our insurance coverage may not be adequate.**

We maintain insurance in respect of a number of risks, including, but not limited to, (i) industrial all risks insurance (which covers physical loss and damage to infrastructure, plant and equipment associated with the generation, transmission and distribution of electricity and non-power generating assets such as data processing equipment), (ii) pollution insurance, (iii) third party liability insurance and terrorism insurance and (iv) other customary insurance. We believe our insurance coverage is commensurate with our business structure and risk profile, but there is no assurance that our current insurance policies will insure us fully against all risks and losses that may arise. In addition, our insurers review the terms of our insurance policies annually, and there is no assurance that we will be able to renew these policies on similar or otherwise acceptable terms, or at all. If we were to incur a serious uninsured loss or a loss that significantly exceeded the limits of our insurance policies, our business, financial condition and results of operations could be materially and adversely affected.

**We must comply with the laws, rules and regulations in Hong Kong relating to the development, construction and operation of power facilities and renewable energy projects.**

Our power facilities and renewable energy projects are subject to strict Hong Kong laws, rules and regulations relating to, among other things, their development, construction, licensing and operation. These laws, rules and regulations address, among other things, project approval and licensing for power companies, building and construction of new projects, environmental conservation and power dispatch and transmission. In particular, before we construct and operate our power facilities and renewable energy projects, we must first obtain operational and construction approvals and permits from various authorities. We cannot assure you that we will be able to obtain or renew all the approvals and permits necessary for the development and operation of new or existing projects in a timely manner, or at all. Furthermore, we must comply with the conditions contained in the operational and construction permits, and failure to do so may result in fines, sanctions, criminal penalties and/or the suspension, revocation or non-renewal of approvals, licenses or permits.

**We are subject to stringent environmental laws, rules and regulations.**

Our operations are subject to numerous environmental laws, rules and regulations promulgated by the Hong Kong Government. Without limitation, these laws, rules and regulations govern environmental issues such as emissions, facility maintenance and soil and groundwater contamination. See *"Scheme of Control and Regulatory Overview — Key Laws, Rules and Regulations Applicable to the Group"* for details. In addition, we will be subject to any future environmental laws, rules and regulations enacted by the Hong Kong Government in response to international treaties or accords or laws or policies promulgated in other jurisdictions, including any controls enacted to minimise mercury emissions along with other pollutants from coal-fired boilers (such limitations to mercury emissions were recently proposed in the PRC's Twelfth Five-Year Plan). Given the volume, complexity and frequency of amendments to these laws, rules and regulations, compliance may be onerous or it may take substantial financial or other resources to establish efficient compliance and monitoring systems. The liabilities, costs, obligations and requirements associated with these laws, rules and regulations may be substantial and may delay the commencement of, or cause interruptions to, our operations. Non-compliance with relevant industry regulations, as well as the environmental laws, rules and regulations applicable to our operations, may result in substantial penalties or fines, suspension or revocation of our licenses or permits, stoppage of power facility or renewable energy project construction, suspension of our operations or significant damage to our reputation. Moreover, any changes or amendments to such laws, rules or regulations may cause us to incur additional capital expenditures or other obligations or liabilities. Such events could materially and adversely impact our business, financial condition and results of operations.

**PAH, whose interest in the Group's business may be different from the other Holders of Share Stapled Units, will be able to exercise significant influence over certain activities of the Group.**

Immediately following the completion of the Reorganisation and the Global Offering (assuming the Over-allotment Option is not exercised), PAH will have an interest in approximately 49.9% of the issued and outstanding Share Stapled Units. As a result, PAH will therefore be in a position to exercise significant influence over matters which require the approval of the Holders of Share Stapled Units.

The interests of PAH may be different from our interests or those of the other Holders of Share Stapled Units. In particular, the actions of PAH could favour its own interests over our interests or the interests of the other Holders of Share Stapled Units and could have a material adverse effect on our business, financial condition and results of operations.

**We may experience a shortage of labour, labour disputes or an increase in labour costs.**

We are subject to the risk of labour disputes and adverse employee relations. These potential disputes and adverse relations could result in work stoppages or other events that could disrupt our operations, which could materially and adversely affect our business, financial condition and results of operations.

**We may not be able to recover our trade and other receivables.**

As at 31 December 2010, 2011 and 2012 and 30 September 2013, our trade and other receivables totalled HK$1,118.0 million, HK$1,078.1 million, HK$1,182.9 million and HK$1,669.0 million, respectively. The majority of our trade receivables consist of unbilled electricity charges and unpaid electricity charges. We have obtained collateral in the form of security deposits or bank guarantees from our customers to cover any defaults or failure on their part to pay their electricity bills. However, there is no assurance that we will be able to recover fully any unpaid amount exceeding any such security deposit or guarantee. Failure on our part to recover fully the entire amount owed to us under trade and other receivables could materially and adversely affect our business, financial condition and results of operations.

**We engage in hedging activities to manage our exposure to fluctuations in interest rates and foreign currencies.**

We are exposed to foreign currency risks associated with the import of fuel and capital equipment. We also face liquidity and interest rate risks in relation to our interest-bearing assets and liabilities, such as bank loans, bank overdrafts and MTNs. In order to manage these risks, we engage in hedging transactions. We use financial instruments for risk management and not for speculative purposes. However, hedging could fail to protect us or could adversely affect us because, among others:

- the available hedging instruments may not correspond directly with the risk for which protection is sought;
- the duration or nominal amount of the hedge may not match the duration or amount of the related liability;
- our hedge counterparty may default on its obligation to pay us;
- the credit quality of our hedge counterparty may be downgraded to such an extent that it impairs the ability of the relevant member of the Group to sell or assign its side of the hedging transaction; and
- the value of the derivatives used for hedging may be adjusted from time to time in accordance with applicable accounting rules to reflect changes in fair value, and any downward adjustments would reduce our net assets and profits.

In addition, hedging involves transaction costs. These costs may increase as the period covered by the hedging increases and during periods of rising and volatile interest rates or foreign exchange rates. In periods of extreme volatility, it may not be commercially viable to enter into hedging transactions due to the high costs involved, which may in turn increase our exposure to financial risks. Any of the above factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

**We may be affected by the general economic conditions in Hong Kong, the PRC and globally.**

We are generally influenced by conditions in the global financial markets and the macroeconomic environments of Hong Kong (including the gross domestic product), the PRC and elsewhere in the world. The global financial crisis that unfolded in 2008, the recent European debt crisis and the slowdown of the PRC economy have resulted in a marked slowdown in world economic growth, economic contractions in certain markets, more commercial and consumer delinquencies, weakened consumer confidence and increased market volatility. There is no assurance that any future economic uncertainties or events will not have a significant negative impact on us. Any global economic slowdown or economic uncertainty may materially and adversely affect the business of our customers or potential customers, as well as cause a slowdown in economic activity in Hong Kong, which, in turn, may lead to a lower demand for electricity services in Hong Kong. Any of the foregoing may materially reduce our turnover, profitability and cash flow and may lead to negative growth.

**Our business and prospects may be materially and adversely affected by a recurrence of SARS or an outbreak of other epidemics.**

Any recurrence of Severe Acute Respiratory Syndrome (SARS) or an outbreak of any other epidemic in Hong Kong, such as influenza A (H1N1) and avian flu (including H5N1 and H7N9), may result in material disruptions to our and our customers' operations and could significantly disrupt our business and operations or cause a material economic downturn. Any such disruption or economic downturn could materially and adversely affect our business, financial condition and results of operations.

## F. RISKS RELATING TO THE STRUCTURE OF HK ELECTRIC INVESTMENTS AND THE COMPANY

**The structure involving the listing of HK Electric Investments, the Company and the Share Stapled Units is relatively unique as there are only limited precedents for such structures in the Hong Kong market. There is no assurance that the Hong Kong courts will interpret the relevant investor protection provisions applicable to the Holders of Share Stapled Units in the same manner as those applicable to shareholders of companies listed on the Stock Exchange. In addition, HK Electric Investments and/or the Company may be affected by the introduction of new policies, legislation, regulations or guidelines affecting them.**

There have only been a limited number of other transactions in the Hong Kong market that involved the listing and sale of share stapled units similar to the Share Stapled Units. There is no assurance that the Hong Kong courts would interpret the relevant investor protection provisions applicable to the Holders of Share Stapled Units in the same manner as those applicable to shareholders of companies listed on the Stock Exchange. A different interpretation of such provisions could have a material adverse effect on an investment in the Share Stapled Units.

In addition, as the listing of the structure involving HK Electric Investments, the Company and the Share Stapled Units is relatively unique, the introduction of new policies, legislation, regulations or guidelines affecting HK Electric Investments and/or the Company may have a material adverse effect on the business, financial condition, results of operations and prospects of the Trust Group and/or an investment in the Share Stapled Units.

**The introduction of new policies or legislation, or the amendment of existing legislation, in the Cayman Islands restricting the funds from which the Company is permitted to make distributions may reduce the level of distributions to the Holders of Share Stapled Units.**

The Trustee-Manager will rely on the receipt of dividends, distributions and other amounts from the Company in order to make distributions (on behalf of HK Electric Investments) to the Holders of Share Stapled Units. The law of the Cayman Islands does not limit the amount that may be paid by way of distribution to amounts standing to the credit of a company's distributable reserves and share premium, as is the case in certain other jurisdictions. There is no assurance that new legislation in the Cayman Islands will not be introduced, or that existing legislation in the Cayman Islands will not be amended or repealed, which would restrict the funds from which the Company is permitted to make distributions and thereby reduce the level of distributions which may be made by the Trustee-Manager (on behalf of HK Electric Investments) to the Holders of Share Stapled Units.

**There is uncertainty as to the Hong Kong profits tax treatment of distributions by the Trustee-Manager (on behalf of HK Electric Investments) to the Holders of Share Stapled Units.**

The Company understands that under the current practice of the IRD, Hong Kong profits tax will not generally be payable by unitholders on distributions by Hong Kong listed unit trusts or fixed single investment trusts (such as HK Electric Investments). However, there is no assurance that the IRD will apply this practice to distributions made by the Trustee-Manager (on behalf of HK Electric Investments) to the Holders of Share Stapled Units. If the IRD does not apply its current practice and/or if there is any change in the current practice, this would affect the after-tax distributions to the Holders of Share Stapled Units. Prospective investors should seek advice from their own professional advisers as to their particular tax positions. Please see *"Appendix VI — Taxation"* for more details.

## G. OTHER RISKS RELATING TO AN INVESTMENT IN THE SHARE STAPLED UNITS

**Any sale or possible sale in the public market of the interests of PAH or an issue of new Share Stapled Units by us may cause a significant decrease in the market price of the Share Stapled Units.**

Immediately following the completion of the Reorganisation and the Global Offering, PAH will have an interest in approximately 49.9% (or 42.4% if the Over-allotment Option is exercised in full) of the Share Stapled Units in issue. If, following the expiry of its lock-up period, PAH sells or is perceived as intending to sell a substantial portion of its interests in the Share Stapled Units, the market price of the Share Stapled Units may be adversely affected. See *"Underwriting"* for details of the lock-up arrangements.

In order to expand our business, we may consider offering and issuing additional Share Stapled Units in the future. Purchasers of the Share Stapled Units may experience dilution in the net tangible assets book value per Share Stapled Unit if we issue additional Share Stapled Units in the future at a price which is lower than the net tangible assets book value per Share Stapled Unit. In addition, the issuance of additional Share Stapled Units may cause a significant decrease in the market price of the Share Stapled Units.

**The Share Stapled Units have never been publicly traded and an active or liquid market for the Share Stapled Units may never develop.**

Prior to the Global Offering, there has been no public market for the Share Stapled Units and an active or liquid market for the Share Stapled Units may never develop or be sustained after the Global Offering. Listing and quotation does not guarantee that a trading market for the Share Stapled Units will develop or, if a market does develop, the liquidity of that market.

**The market price of the Share Stapled Units may decline after the Global Offering.**

The Offer Price of the Share Stapled Units will be determined by agreement among the Joint Global Coordinators (on behalf of the Underwriters), Quickview, the Trustee-Manager and the Company, and may not be indicative of the market price for the Share Stapled Units following completion of the Global Offering. The Share Stapled Units may trade at market prices significantly below the Offer Price after the Global Offering.

The market price of the Share Stapled Units will depend on many factors, including, but not limited to:

- the perceived prospects of the Group's business and investments, and the power industry in Hong Kong;
- differences between our actual financial and operating results and those expected by investors and analysts;
- changes in analysts' recommendations or projections;
- changes in general economic or market conditions;
- the market value of our assets;

- the perceived attractiveness of the Share Stapled Units against that of other equity or debt securities, including those not in the power industry;

- the balance of buyers and sellers of the Share Stapled Units;

- any future changes to the regulatory systems of Hong Kong, the Cayman Islands and the BVI, both generally and specifically in relation to dividend and tax systems and Hong Kong's trusts regime;

- our ability to successfully implement our investment and growth strategies;

- interest rates;

- foreign exchange rates; and

- broad market fluctuations, including any weakness of the equity markets.

For these reasons, among others, the Share Stapled Units may trade at prices that are higher or lower than the Offer Price. In addition, to the extent that we retain operating cash flow for investment, working capital requirements or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of the Share Stapled Units.

**As the Offer Price of the Share Stapled Units is higher than the pro forma consolidated net asset value per Share Stapled Unit, purchasers of Offer Share Stapled Units may experience an immediate dilution in the unaudited pro forma consolidated net asset value per Share Stapled Unit.**

The Offer Price of the Share Stapled Units is higher than the pro forma consolidated net asset value per Share Stapled Unit issued to existing Holders of Share Stapled Units. Accordingly, purchasers of Offer Share Stapled Units in the Global Offering will experience an immediate dilution (representing the difference between the Offer Price of the Share Stapled Units and the pro forma consolidated net asset value per Share Stapled Unit) of (a) HK$0.09 per Share Stapled Unit in the unaudited pro forma consolidated net asset value of HK$5.36 per Share Stapled Unit, assuming an Offer Price of HK$5.45 per Share Stapled Unit (being the Minimum Offer Price) and (b) HK$0.11 per Share Stapled Unit in the unaudited pro forma consolidated net asset value of HK$6.19 per Share Stapled Unit, assuming an Offer Price of HK$6.30 per Share Stapled Unit (being the Maximum Offer Price).

**There is no assurance that the Share Stapled Units will remain listed on the Stock Exchange.**

Although it is currently intended that the Share Stapled Units will remain listed on the Stock Exchange, there is no guarantee of the continued listing of the Share Stapled Units. Among other factors, HK Electric Investments and/or the Company may not continue to satisfy the listing requirements of the Stock Exchange. Holders of Share Stapled Units would not be able to sell their Share Stapled Units through trading on the Stock Exchange if the Share Stapled Units were no longer listed on the Stock Exchange.

**HK Electric Investments may be terminated and the proceeds from a termination or winding up of HK Electric Investments and/or the Company may be less than the amount invested by investors under the Global Offering.**

HK Electric Investments may be terminated in the event that (i) the Exchange Right is exercised, (ii) any law is passed that renders it illegal or, in the opinion of the Trustee-Manager, impracticable or inadvisable to continue HK Electric Investments and approval for the winding up has been given by way of an Ordinary Resolution of Registered Holders of Units or (iii) approval for the termination of HK Electric Investments has been given by way of an Extraordinary Resolution of Registered Holders of Units.

The Offer Price of Share Stapled Units under the Global Offering may be at a premium to the net asset value per Share Stapled Unit at the time of the termination or winding up of HK Electric Investments and/or the Company. Should HK Electric Investments and/or the Company be terminated or wound up, there is no assurance that an investor under the Global Offering will recover all or any part of his investment.

**The Trustee-Manager is not obliged, or permitted, to repurchase or redeem the Share Stapled Units.**

Holders of Share Stapled Units have no right to request the Trustee-Manager to repurchase or redeem their Share Stapled Units and the Trustee-Manager is not permitted to do so. It is intended that Holders of Share Stapled Units may only deal in their listed Share Stapled Units through trading on the Stock Exchange.

**The Trustee-Manager may be removed and replaced by an Ordinary Resolution of Registered Holders of Units.**

The Trust Deed requires the removal of the trustee-manager of HK Electric Investments by way of an Ordinary Resolution of Registered Holders of Units, which is a resolution approved by Registered Holders of Units holding more than 50% of the voting rights of all the Registered Holders of Units present and voting.

**If the Trustee-Manager resigns or is removed by the Registered Holders of Units, HK Electric Investments may not be able to appoint a new trustee-manager in a timely manner or on similar terms.**

Under the Trust Deed, the Trustee-Manager may be removed as the trustee-manager of HK Electric Investments by an Ordinary Resolution of Registered Holders of Units, or it may resign as the trustee-manager. Any removal or resignation of the Trustee-Manager must be made in accordance with the procedures set out in the Trust Deed and shall only become effective upon the incumbent trustee-manager which is being removed or is resigning (as the case may be) having taken all necessary steps to transfer legal title to all Trust Property to the incoming trustee-manager, including, but not limited to, the Ordinary Shares. The responsibilities and obligations of the trustee-manager which is being removed or is resigning will only cease, and the responsibilities and obligations of the incoming trustee-manager will only commence, upon completion of all necessary steps. Any purported change of the Trustee-Manager is ineffective unless it is made in accordance with the Trust Deed.

Upon the resignation of the Trustee-Manager or the removal of the Trustee-Manager by way of an Ordinary Resolution of Registered Holders of Units, HK Electric Investments may not be able to appoint a substitute for the Trustee-Manager in a timely manner, or on terms similar to those under the Trust Deed. In particular, it may be difficult to find a substitute trustee-manager, as the Trust Deed prohibits the payment of any fee to the trustee-manager to carry out its role as trustee-manager. The Trust Deed includes provisions whereby application can be made to the Hong Kong court under its inherent jurisdiction, or under the Trustee Ordinance, for the appointment of a replacement trustee-manager. However, there is no assurance that any new trustee-manager to be appointed to substitute for the Trustee-Manager will have the relevant experience in performing its duties under the Trust Deed.

If the Trustee-Manager is removed and no new trustee-manager is willing to take its place, HK Electric Investments could be terminated by court order.

Under the Trust Deed, in the event that the Trustee-Manager is removed by way of an Ordinary Resolution of Registered Holders of Units and no new trustee-manager is willing to take the place of the Trustee-Manager within 60 days of such removal, any Registered Holder of Share Stapled Units may apply to the Hong Kong court under its inherent jurisdiction, or under the Trustee Ordinance, for an order to appoint any company to act as the trustee-manager or to terminate HK Electric Investments.

**It may be difficult to establish liability for breach of trust by the Trustee-Manager, and the rights of HK Electric Investments and the Holders of Share Stapled Units to recover claims against the Trustee-Manager are limited.**

A trustee-manager who does not carry out its duties and obligations contained in the trust deed or as imposed by law will be in breach of trust and will be liable to the Holders of Share Stapled Units. Generally, under the common law, when there is a breach of trust, a trustee-manager can be compelled to do something required by the trust or prevented from doing something prohibited by the trust. A trustee-manager can also be required to restore the trust property that has been passed away in the breach, to provide value equivalent to the value of the property passed away or to pay equitable compensation to the trust to compensate the beneficiaries' loss. A trustee-manager may also be obliged to put the trust estate back to the same position it would have been in had the breach not occurred. However, under the common law, it may be difficult to establish a liability for breach of trust, as the Holders of Share Stapled Units must prove that the Trust Property has incurred a loss and that the loss would not have occurred but for the breach. The Trustee-Manager will also be entitled to certain defences to breach of trust under the common law. It is also unclear under common law whether the directors of a corporate trustee have personal liability to the beneficiaries of the trust.

The Trust Deed limits the liability of the Trustee-Manager (including its directors, employees, servants, agents and delegates) in the absence of fraud, wilful default, negligence or breach of the Trust Deed. In addition, the Trust Deed provides that the Trustee-Manager and any of its directors, employees, servants, agents and delegates are entitled to be indemnified against any actions, costs, claims, damages, expenses, penalties or demands to which it or he/she may be put as the trustee-manager of HK Electric Investments (or as such a director, employee, servant, agent or delegate) so long as such action, cost, claim, damage, expense, penalty or demand is not occasioned by fraud, wilful default or negligence. As a result, the rights of HK Electric Investments and the Holders of Share Stapled Units to recover claims against the Trustee-Manager are limited.

**Third parties may be unable to recover for claims brought against the Trustee-Manager as the Trustee-Manager is not an entity with significant assets other than the property of HK Electric Investments. HK Electric Investments can only act through the Trustee-Manager.**

Third parties may in the future have claims against the Trustee-Manager in connection with the carrying on of its duties as trustee-manager of HK Electric Investments (including in relation to the Global Offering and this prospectus).

Under the terms of the Trust Deed, the Trustee-Manager is indemnified from the Trust Property against any actions, costs, claims, damages, expenses, penalties or demands to which it may be put as the trustee-manager of HK Electric Investments unless occasioned by fraud, wilful default or negligence. In the event of any such fraud, wilful default or negligence, only the assets of the Trustee-Manager itself and not the Trust Property would be available to satisfy a claim.

HK Electric Investments can only act through the Trustee-Manager. If the Trustee-Manager enters into a contract with a third party, the Trustee-Manager is liable under the contract to a potentially unlimited degree. Similarly, the Trustee-Manager can also be personally liable in tort for its or its agents' acts or omissions in connection with the administration of HK Electric Investments.

As a general principle, unless appropriately expressed to the contrary and permitted by the Trust Deed, creditors and contractual counterparties of HK Electric Investments and other third parties have no direct access to the Trust Property, because HK Electric Investments has no separate legal existence. The Trustee-Manager is entitled under the Trust Deed to an indemnity out of the Trust Property in respect of the Trustee-Manager's personal liability where a contract has been properly entered into during the administration of HK Electric Investments and within the powers conferred by the Trust Deed and in the absence of fraud, wilful default or negligence by the Trustee-Manager. Similarly, where the Trustee-Manager has acted within its powers under the Trust Deed, it will be entitled to an indemnity in respect of claims in tort by third parties, in the absence of fraud, wilful default or negligence on the part of the Trustee-Manager.

Creditors', other contractual counterparties' and other third parties' only means of access to the Trust Property is by subrogation to the Trustee-Manager's right to be indemnified out of the Trust Property in the circumstances described above.

**You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles, other media and/or research reports regarding us, our business, our industry and the Global Offering.**

There has been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press, media and/or research analyst coverage regarding the Group, our business, our industry and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decision regarding the Share Stapled Units and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or appropriateness of any forecasts, projections, views or opinions expressed by the press, other media and/or research analysts regarding the Share Stapled Units, the Global Offering, the Group, our business or our industry. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, projections, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

**Certain industry statistics contained in this prospectus are derived from publicly available official sources, which have not been verified by us.**

This prospectus contains information and statistics related to, among other things, Hong Kong and the power industry in Hong Kong. Such information and statistics have been derived from various publicly available government and official sources. We believe that the sources of such information and statistics are appropriate sources for such information and statistics and have taken reasonable care in the extraction and reproduction of such information and statistics. We have no reason to believe that such information or statistics are false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. However, none of the Trustee-Manager, the Company or any of the Relevant Persons has independently verified such information and statistics and no representation is given as to their correctness or accuracy. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other jurisdictions. Therefore, you should not unduly rely upon the industry information and statistics contained in this prospectus.