The following discussion and analysis should be read in conjunction with the consolidated financial information and the notes thereto as set out in the Accountants' Report in "Appendix I — Accountants' Report". The consolidated financial information included in the Accountants' Report is prepared for the Operating Group and not the Trust Group. Neither HK Electric Investments nor the Company carried on, or expect to carry on, any business from the dates of their respective establishment/incorporation until the date of completion of the Acquisition, which is the same date as the Listing Date, except for incurring certain insignificant costs relating to the Acquisition and the Listing, and neither HK Electric Investments nor the Company had any material assets or liabilities or revenue or expenses during the Track Record Period. Accordingly, we have used the consolidated financial information of the Operating Group below for the purpose of undertaking an analysis of the financial information of the Trust Group during the Track Record Period.

The consolidated financial information and notes as at and for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 have been prepared in accordance with HKFRS. The consolidated financial information and notes as at and for the nine months ended 30 September 2012 have been derived from our unaudited interim consolidated financial information. We have prepared the unaudited interim consolidated financial information on the same basis as the consolidated financial information and the notes thereto as set out in the Accountants' Report in "Appendix I — Accountants' Report".

This following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including but not limited to, those set out in "Forward-Looking Statements" and "Risk Factors".

OVERVIEW

HK Electric Investments is the first fixed single investment trust in Hong Kong with a focus on the power industry. We are a vertically integrated power utility in Hong Kong with operations in all areas of power generation, transmission, distribution, supply and tariff setting. We are the sole electricity provider to Hong Kong Island and Lamma Island, with an Electricity Supply Reliability Rating of above 99.999% in each year since 1997. As at 30 September 2013, we provided electricity to approximately 568,000 registered customers and our sole power generation facility, the Lamma Power Station, had an aggregate installed capacity of approximately 3,737 MW.

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

For FY2010, FY2011, FY2012, 9M2012 and 9M2013, our total turnover amounted to HK$10,363.0 million, HK$10,184.8 million, HK$10,399.6 million, HK$8,061.5 million and HK$7,885.5 million, respectively. For FY2010, FY2011 and FY2012, the Net Return we were allowed to achieve under the Scheme of Control was HK$4,633.0 million, HK$4,584.0 million and HK$4,624.0 million, respectively.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

During the Track Record Period, our financial condition and results of operations have been most significantly affected by the following factors:

Scheme of Control

Our operations are subject to the Scheme of Control entered into among HEC, PAH and the Hong Kong Government. The Scheme of Control sets out our rights and obligations, in particular our right to earn a Net Return for the sale of electricity which is designed to cover our operating costs (including tax). It provides a framework for the Hong Kong Government to monitor our financial affairs and operating performance. The current Scheme of Control was entered into on 7 January 2008 for a term of ten years from 1 January 2009 to 31 December 2018, with an option for the Hong Kong Government to extend it for a further term of five years ending on 31 December 2023.

In addition, 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 until 2023, has the right during FY2018, to request modifications to the Scheme of Control. However, any such modifications must be mutually agreed by the parties in writing before they take effect. An interim review of the Scheme of Control took place in FY2013. 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"*.

If the Hong Kong Government does not exercise its option to extend the term of the Scheme of Control for a further term of five years after 31 December 2018, 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 any 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). For further details, please refer to *"Scheme of Control and Regulatory Overview"*.

Permitted Return and Net Return

Our financial condition and results of operations are directly impacted by the Permitted Return and Net Return which we are allowed to achieve under the Scheme of Control. 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. Our Net Return for each year is derived from the Permitted Return less certain deductions and after taking into account certain adjustments. For more information regarding the calculation of our Net Return, see *"Scheme of Control and Regulatory Overview — Scheme of Control — Net Return"*.

In particular, beginning in FY2002, the Permitted Return for each year has been determined after deducting certain amounts associated with (i) a premature site formation in connection with the Lamma Extension, which was designed with a capacity to accommodate six gas-fired combined cycle units to meet electricity demand in the future and allow for future expansion, and (ii) an excess capacity adjustment under the Scheme of Control in relation to our gas-fired combined cycle unit in the Lamma Extension. The deduction of these amounts safeguards customers' interests and reduces any return we could receive on the related incurred expenditures.

In addition, the Scheme of Control also contains performance-based incentives and penalties. These performance related adjustments are in the range of -0.4% to +0.1% on the Average Net Fixed Assets minus the Average Renewables Net Fixed Assets (in the case of the incentive for emission reduction) or the Average Net Fixed Assets (in the case of other incentives), which are taken into account for the purposes of calculating the Net Return for each year. During the Track Record Period, we received certain performance-based incentives and we did not incur any penalties under the Scheme of Control.

Tariff Stabilisation Fund

The Scheme of Control requires that we maintain a Tariff Stabilisation Fund, the main purpose of which is to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions where appropriate. In each year where the Gross Tariff Revenue exceeds the Tariff Stabilisation Adjustments, the amount of such excess is transferred from our statement of profit or loss to the Tariff Stabilisation Fund. Conversely, when there is a deficiency, the amount of such deficiency is transferred from the Tariff Stabilisation Fund to our statement of profit or loss for that year, provided that the amount transferred may not exceed the balance of the Tariff Stabilisation Fund, which may not go into a deficit position. As such, if a shortfall were to occur, we would be required to absorb any amounts in excess of the balance of the Tariff Stabilisation Fund. We experienced such shortfalls from FY2003 to FY2006, which in turn resulted in a reduced Net Return. Please see " — *Scheme of Control"* below for further information.

Fuel Clause Recovery Account

Under the Scheme of Control, any difference between the actual cost of fuel (including coal, natural gas and ultra low sulphur diesel oil) and the standard cost of fuel recovered through the Basic Tariff Rate is charged or credited to a Fuel Clause Recovery Account maintained in our books and passed on, or rebated, to our customers by way of a Fuel Clause Charge or a Fuel Clause Rebate, respectively. During the Track Record Period, our actual fuel costs exceeded the standard cost of fuel recovered through the Basic Tariff Rate. As a result, our Fuel Cost Account Adjustments for FY2010, FY2011, FY2012, 9M2012 and 9M2013 were HK$2,794.7 million, HK$3,755.0 million, HK$3,867.3 million, HK$2,953.4 million and HK$2,519.7 million, respectively.

If the Scheme of Control is modified to change the percentages we are allowed to receive as part of the Permitted Return, the formula for calculating the Permitted Return, any of the currently existing government incentives or penalties or any of the rules governing contributions to the Tariff Stabilisation Fund or the Fuel Clause Recovery Account, our financial condition and results of operations may be materially and adversely affected.

Tariffs Charged to Our Customers

Our financial condition and results of operations are directly impacted by the net tariff we are able to charge to our customers. For FY2010, FY2011, FY2012 and 9M2013, the average net tariff charged to our customers was 119.8 Hong Kong cents per kWh, 123.1 Hong Kong cents per kWh, 130.9 Hong Kong cents per kWh and 134.8 Hong Kong cents per kWh, respectively. The fluctuations were primarily due to increases in Fuel Clause Charges. Our net tariff is also impacted by the Development Plan review and annual tariff review, both of which are governed by the Scheme of Control.

The net tariff charged to our customers consists of (i) the Basic Tariff Rate, (ii) any Fuel Clause Charge or Fuel Clause Rebate and (iii) any Rate Reduction Rebate. For further information, see *"Scheme of Control and Regulatory Overview — Scheme of Control — Tariff"*.

The following table sets out our average net tariff charged for the periods indicated:

	FY2010	FY2011	FY2012	9M2013
	(Hong Kong cents per kWh)			
Average net tariff				
Basic Tariff Rate	94.5	93.0	93.9	94.6
Fuel Clause Charge	25.4	30.2	37.0	40.2
Rate Reduction Rebate[(1)]	(0.1)	(0.1)	—	—
Net tariff	**119.8**	**123.1**	**130.9**	**134.8**

Note:

(1) Rate Reduction Rebate is only applicable from January 2010 to May 2011.

In addition to the above, our net tariff rates are directly impacted by a Development Plan review and annual tariff review. Each Development Plan sets out the projected Basic Tariff Rate and our projected capital expenditure for each of the five years covered. The 2009-2013 Development Plan expired at the end of 2013. The 2014-2018 Development Plan was submitted to the Hong Kong Government for review in April 2013. The projected Basic Tariff Rate and projected capital expenditures agreed by us and the

Hong Kong Government pursuant to the 2014-2018 Development Plan were approved by the Executive Council on 10 December 2013. The Basic Tariff Rate charged to our customers under the 2014-2018 Development Plan will be impacted by the L10 Project, the commencement of which is subject to the receipt of a written confirmation from the Hong Kong Government to HEC. For further information regarding the L10 Project, see *"Scheme of Control and Regulatory Overview — Scheme of Control — Development Plan — 2014-2018 Development Plan"*. The following table sets out our projected Basic Tariff Rate under the 2014-2018 Development Plan for each of the years from FY2014 to FY2018:

	FY2014	FY2015	FY2016	FY2017	FY2018
	(Hong Kong cents per kWh)				
Projected Basic Tariff Rate without L10 project	101.8	101.7	100.9	100.0	99.0
Projected Basic Tariff Rate with L10 project	101.8	101.7	101.0	100.4	100.0

The above "projected Basic Tariff Rate without L10 Project" category will apply during the period from FY2014 to FY2018. If the L10 Project commences in 2016 as scheduled, the above "projected Basic Tariff Rate with L10 Project" category will be applicable in the relevant period instead. In either case, the effect of the fluctuations in the projected Basic Tariff Rate during the period from FY2014 to FY2018 on the net tariff to be charged to our customers is expected to be offset by an adjustment in the Fuel Clause Charge such that the average net tariff is expected to be largely stable for the period from FY2014 to FY2018.

For further details of the 2014-2018 Development Plan and the tariff review, see *"Scheme of Control and Regulatory Overview — Scheme of Control — Development Plan"* and *"Scheme of Control and Regulatory Overview — Scheme of Control — Tariff Review"*.

Units Sold and Installed Capacity

Our turnover and results of operations are also affected by customer demand and the number of units of electricity we are able to sell. Our customers' demands affect the amount of turnover we are able to generate, as we adjust net tariffs charged based on their specific consumption levels. For FY2010, FY2011, FY2012, 9M2012 and 9M2013, we sold 10,933 million kWh, 10,897 million kWh, 11,036 million kWh, 8,545 million kWh and 8,315 million kWh, respectively. The table below sets out our total units sold by customer type for the periods indicated:

	FY2010	FY2011	FY2012	9M2012	9M2013
	(Millions of kWh)				
Units sold					
Commercial	8,124	8,081	8,164	6,231	6,125
Domestic	2,472	2,482	2,541	2,064	1,944
Industrial	337	334	331	250	246
Total	**10,933**	**10,897**	**11,036**	**8,545**	**8,315**

In addition to the above, installed capacity also impacts the amount of electricity we are able to generate and sell, and to a lesser extent, impacts the amount of turnover we are able to generate. As at 30 September 2013, our power station had a total installed capacity of approximately 3,737 MW. The table below sets out a breakdown of our installed capacity for the periods indicated:

	FY2010	FY2011	FY2012	9M2012	9M2013
			(MW)		
Installed capacity					
Gas turbines and standby units	555	555	555	555	555
Coal-fired units	2,500	2,500	2,500	2,500	2,500
Gas-fired combined cycle unit	680	680	680	680	680
Wind turbine and photovoltaic system	1	1	2	2	2
Total installed capacity	**3,736**	**3,736**	**3,737**	**3,737**	**3,737**

Fuel Supply and Costs

Fuel supply and costs impact our financial condition and results of operations. The primary types of fuel consumed at the Lamma Power Station are coal, natural gas and ultra low sulphur diesel oil. The prices for the types of fuel we use are volatile and are affected by, among other things, increases and decreases in regional and global demand. While we have historically offset such volatility through the Fuel Cost Account Adjustments, prices may increase at a sudden or significant rate or to a level that, for various reasons, cannot be immediately passed on to our customers but would need to be recovered in subsequent years. Such an event could affect our cash flow and liquidity. For further information, see *"Risk Factors — Risks Relating to Our Coal-Fired, Gas-Fired and Oil-Fired 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."*

The following tables set out the levels of our fuel consumption, our actual fuel costs, our actual cost of fuel per unit and actual cost of fuel per unit of electricity sold for the periods indicated:

	FY2010	FY2011	FY2012	9M2012	9M2013
Fuel Consumption					
Coal (metric tonne)	3,011,379	3,042,772	3,199,795	2,559,071	2,401,679
Fuel oil(1) (metric tonne)	17,531	12,366	13,969	11,413	7,145
Natural gas (gigajoule)	31,532,314	31,392,200	31,627,053	23,182,622	21,883,701

Note:

(1) During FY2010 and FY2011, fuel oil consumed consisted primarily of ultra low sulphur diesel oil and other types of oil. Beginning in FY2012, fuel oil consumed has consisted of ultra low sulphur diesel oil only.

	FY2010	FY2011	FY2012	9M2012	9M2013
			(HK$ in millions)		
Actual Fuel Costs					
Coal	2,278.7	2,825.7	2,796.9	2,306.8	1,778.0
Fuel oil[(1)]	79.3	71.1	86.8	71.1	46.2
Natural gas	2,192.1	2,621.5	2,931.9	2,127.6	2,041.7
Interconnection	—	—	(165.6)	(165.6)	—
Interest and other fuel expenses	20.6	20.1	22.9	17.8	14.7
Total	**4,570.8**	**5,538.4**	**5,672.9**	**4,357.7**	**3,880.5**

	FY2010	FY2011	FY2012	9M2012	9M2013
Actual Cost of Fuel Per Unit					
Coal (HK$ per metric tonne)	756.7	928.7	874.1	901.4	740.3
Fuel oil[(1)] (HK$ per metric tonne)	4,523.4	5,749.6	6,213.8	6,229.7	6,466.1
Natural gas (HK$ per gigajoule)	69.5	83.5	92.7	91.8	93.3

	FY2010	FY2011	FY2012	9M2012	9M2013
Actual Cost of Fuel Per Unit of Electricity Sold (Hong Kong cents per kWh)	41.8	50.8	51.4	51.0	46.7

Note:

(1) During FY2010 and FY2011, fuel oil purchased consisted primarily of ultra low sulphur diesel oil and other types of oil. Beginning in FY2012, fuel oil purchased has consisted of ultra low sulphur diesel oil only.

Government Policies and Regulations

Government policies and regulations directly affect our financial condition and results of operations. Our business operations, including the Permitted Return and chargeable net tariff, are governed and regulated by the Scheme of Control. In addition, we are also subject to such policies and regulations as the fuel mix policy and the Air Pollution Control Ordinance. As part of the fuel mix policy, the Hong Kong Government has proposed that by 2020, natural gas should account for approximately 40% of Hong Kong's fuel mix for power generation, coal should account for no more than 10%, renewable energy resources should account for approximately 3% to 4%, and the balance of approximately 50% should be accounted for by imported nuclear energy. 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. Under the Air Pollution Control Ordinance, permitted emission levels from power generation facilities are limited. In addition to the above, the Hong Kong Government could potentially introduce additional competition at any or all levels of our operations, such as the power generation, transmission, distribution and retail levels. 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. These policies and any future policies promulgated could impact our Development Plan or future installed capacity and could cause us to lose market share or require us to reduce our tariffs in order to remain competitive. The occurrence of any of these events could affect our turnover and profit and could also potentially require us to significantly increase our capital expenditures.

Capital Expenditures

Most of our capital expenditures relate to upgrading and refurbishment work, construction expenditures and construction related costs and they have, and will continue to have, a significant impact on our financial condition, results of operations and liquidity. For FY2010, FY2011, FY2012 and 9M2013, we invested approximately HK$2,426.8 million, HK$2,886.9 million, HK$2,612.9 million and HK$1,192.7 million, respectively, in fixed assets, primarily for the retrofitting of emission control facilities, increasing the gas-fired generation capacity, station building and plant facilities improvement (including upgrading steam turbines, constructing new service buildings and installing a 1 MW TFPV system at Lamma Power Station), the replacement of overhead lines with underground cable circuits, the installation of cable circuits and equipment for electricity connection to new MTR lines, general transmission and distribution system expansion and other projects for improving supply reliability.

The 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). This estimated total capital expenditure of approximately HK$13.0 billion represents an increase of approximately 5.7% over the approved total capital expenditure of approximately HK$12.3 billion under the 2009-2013 Development Plan, and is expected to be funded by cash from our operating activities, bank loans and/or other debt markets fund raising activities. The estimated total capital expenditure as approved under the 2014-2018 Development Plan represents our continued commitment to provide a safe and reliable electricity supply to our customers. For further details of the 2014-2018 Development Plan, see *"Scheme of Control and Regulatory Overview — Scheme of Control — Development Plan — 2014-2018 Development Plan"*. We anticipate that our future level of capital expenditures and construction costs will affect our short term cash flow and the amount of our Net Fixed Assets, which in turn will affect the amount of the Permitted Return. In addition, any delay in obtaining the Executive Council's approval for our future Development Plans could materially and adversely impact our targeted installed capacity and our future capital expenditures as well as delay our potential development plans.

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 services, 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. In addition, our sales of electricity for 9M2013 were approximately 2.2% lower than the corresponding period in 2012, primarily due to milder weather during the period and drier weather in the early months of the year when compared to the previous year, which exerted downward pressure on demand for electricity. While our turnover and profit remain relatively stable from year to year, weather conditions and seasonality may have an impact on demand for our electricity services, which could affect our turnover and profit. As a result, comparisons of results of operations between different periods within a single year may not be meaningful and should not be relied upon as indicators of our performance.

BASIS OF PRESENTATION

The financial information in this prospectus (excluding the Accountants' Report as set out in the *"Appendix I — Accountants' Report"*), which reflects the consolidated financial results of the Operating Group, is presented in Hong Kong dollars rounded to the nearest million except as stated otherwise. Such financial information is prepared using a historical cost basis except as set out in the accounting policies in note 1 of Section B of *"Appendix I — Accountants' Report"*.

CRITICAL ACCOUNTING POLICIES

The methods, estimates and judgements our management used in applying our accounting policies have a significant impact on our financial position and operating results. Some of the accounting policies require us to apply estimates and judgements on matters that are inherently uncertain. In addition, the estimates and judgements may also have a significant effect on the carrying amount of our assets and liabilities. Please see note 34 of Section B of *"Appendix I — Accountants' Report"* for the critical accounting estimates and judgements used in applying our accounting policies.

When reviewing our financial information, you should consider: (i) our selection of critical accounting policies, (ii) the judgement and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies are the most significant or involved a higher degree of estimates and judgements in the preparation of our financial information.

Revenue Recognition

Regulation of Earnings Under the Scheme of Control Agreement

Our earnings are regulated by the Hong Kong Government under the Scheme of Control, which provides for a permitted level of earnings based principally on a return on our capital investment and performance-based incentives and penalties.

Income Recognition

Electricity income is recognised based on the actual and accrued units of electricity consumed by customers during the year at the basic tariff.

Fuel Clause Recovery Account

Under the Scheme of Control, any difference between the total standard cost of fuel and actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account. Fuel Clause Charges (or Rebates) are charged (or rebated) to customers by adding to (or deducting from) the basic tariff to produce a net tariff payable by customers.

For further information on revenue recognition, see note 1(r) of Section B of *"Appendix I — Accountants' Report"* and *"Scheme of Control and Regulatory Overview — Scheme of Control"*.

Capital Expenditure

The cost of self-constructed items of property, plant and equipment includes (i) the cost of materials, (ii) direct labour, (iii) the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and (iv) an appropriate proportion of production overheads and borrowing costs. Subsequent expenditure to replace a component of a fixed asset that is accounted for separately, or to improve its operational performance, is included in the asset's carrying amount or recognised as a separate asset as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to us and the cost of the item could be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation and Amortisation

Fixed assets are depreciated on a straight-line basis over their estimated useful lives after taking into account the estimated residual value. We review annually the useful life of an asset and its residual value, if any. Interests in leasehold land held for our own use under finance leases are amortised on a straight-line basis over the unexpired lease term. Both the period and methods of amortisation are reviewed annually. Depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

Impairment

In considering the impairment losses that may be required for our fixed assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to estimate precisely the fair value less costs to sell because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by our assets are discounted to their present value, which requires significant judgement. We use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. Any increase or decrease in impairment losses, recognised as set out above, would affect our net profit in future years.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

DESCRIPTION OF KEY CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME LINE ITEMS

Turnover

Our principal activity is the generation, transmission, distribution and supply of electricity to Hong Kong Island and Lamma Island. The table below sets out a breakdown of our turnover and each item as a percentage of total turnover for the periods indicated:

	FY2010		FY2011		FY2012		9M2012 (unaudited)		9M2013	
	Turnover	%	Turnover	%	Turnover	%	Turnover	%	Turnover	%
	(HK$ in millions except percentages)									
Sales of electricity	10,337.6	99.8	10,140.1	99.6	10,363.7	99.7	8,044.7	99.8	7,871.1	99.8
Concessionary discount on sales of electricity	(6.0)	(0.1)	(6.5)	(0.1)	(6.9)	(0.1)	(5.2)	(0.1)	(4.9)	(0.1)
Electricity-related income	31.4	0.3	51.2	0.5	42.8	0.4	22.0	0.3	19.2	0.2
Total	**10,363.0**	**100.0**	**10,184.8**	**100.0**	**10,399.6**	**100.0**	**8,061.5**	**100.0**	**7,885.5**	**100.0**

Our turnover primarily consists of (i) revenue from our sales of electricity and (ii) electricity related income, which consists primarily of (a) service charges for permanent supply, primarily associated with the supply of electricity to customer substations for large new developments and to small new developments without customer substation provisions, and (b) site service income primarily associated with the temporary supply of electricity to construction sites or special functions. Such items are partially offset by concessionary discounts on sales of electricity, which are discounts that we offer to individuals and families with special needs as part of a concessionary tariff scheme organised between us and the Hong Kong Council of Social Service.

Standard Fuel Costs

The standard cost of fuel, as an operating cost, was set in 1986 in an agreement with the Hong Kong Government based on the prevailing oil price at that time which was required to produce one unit of electricity. The difference between (i) the total standard cost of fuel and (ii) the actual cost of fuel consumed represents the Fuel Cost Account Adjustments, which are transferred to (or from) the Fuel Clause Recovery Account. The following table sets out our standard fuel costs for the periods indicated:

	FY2010	FY2011	FY2012	9M2012 (unaudited)	9M2013
	(HK$ in millions)				
Actual fuel costs	4,570.8	5,538.4	5,672.9	4,357.7	3,880.5
Fuel Cost Account Adjustments	(2,794.7)	(3,755.0)	(3,867.3)	(2,953.4)	(2,519.7)
Standard Fuel Costs	**1,776.0**	**1,783.4**	**1,805.6**	**1,404.4**	**1,360.8**

The following table sets out our standard fuel costs per unit of electricity for the periods indicated:

	FY2010	FY2011	FY2012	9M2012	9M2013
			(Hong Kong cents per kWh)		
Standard fuel costs per unit of electricity[(1)]	16.2	16.4	16.4	16.4	16.4

Note:

(1) Standard fuel costs per unit of electricity are calculated by dividing standard fuel costs by the number of units of electricity sold.

Direct Costs

Our direct costs primarily comprise staff costs, material and direct expenses (including maintenance and contract services) and depreciation, with depreciation accounting for the majority of our total direct costs. The following table sets out a breakdown of our direct costs for the periods indicated:

	FY2010	FY2011	FY2012	9M2012 (unaudited)	9M2013
			(HK$ in millions)		
Staff costs	312.5	330.4	349.2	259.9	302.6
Material and direct expenses	117.7	128.3	135.7	92.4	85.1
Depreciation	1,729.0	1,780.7	1,862.3	1,376.8	1,434.5
Direct costs	2,159.2	2,239.4	2,347.2	1,729.1	1,822.2

Other Revenue and Other Net Income

The table below sets out our other revenue and other net income for the periods indicated:

	FY2010	FY2011	FY2012	9M2012 (unaudited)	9M2013
			(HK$ in millions)		
Net profit on sale of fixed assets	3.1	0.8	0.3	0.8	1.9
Interest income	0.3	0.1	0.3	0.3	—
Sundry income	30.9	49.5	31.6	25.0	20.5
Total	**34.2**	**50.4**	**32.1**	**26.0**	**22.4**

Our net profit on the sale of fixed assets primarily comprises profit derived from the sale of two of our staff holiday houses and motor vehicles in FY2010, the sale of transmission and distribution machinery and motor vehicles in FY2011 and the sale of motor vehicles in FY2012. Our interest income primarily comprises interest income on our bank deposits. Sundry income comprises customers' deposits forfeited, rental income, scrap sales and others.

Other Operating Costs

Our other operating costs primarily comprise administration costs, rates and government rent, depreciation and fixed assets written off. The following table sets out a breakdown of our other operating costs for the periods indicated:

	FY2010	FY2011	FY2012	9M2012 (unaudited)	9M2013
			(HK$ in millions)		
Administration costs	274.2	267.6	295.5	206.0	254.1
Rates and government rent	309.8	236.6	214.5	169.9	173.0
Depreciation	65.0	56.8	58.1	40.4	50.5
Fixed assets and stock written off	58.5	51.8	56.8	22.1	20.8
Insurance	26.9	27.1	27.1	20.3	22.4
Other operating costs	734.4	639.9	652.0	458.7	520.8

Finance Costs

Finance costs represent our interest expense on our overdrafts, bank loans and MTNs less (i) interest capitalised to fixed assets and (ii) interest transferred to fuel costs. For further information, see *"— Indebtedness"* below. The following table sets out our finance costs for the periods indicated:

	FY2010	FY2011	FY2012	9M2012 (unaudited)	9M2013
			(HK$ in millions)		
Interest on overdrafts, bank loans and MTNs repayable within five years	91.1	144.1	150.7	106.8	111.2
Interest on bank loans and MTNs repayable after five years	81.1	174.7	202.3	149.0	167.8
Total interest expense	172.2	318.8	353.0	255.8	279.0
Interest capitalised to fixed assets	(42.6)	(50.0)	(67.7)	(50.0)	(49.4)
Interest transferred to fuel costs	(16.8)	(19.6)	(20.4)	(15.2)	(15.0)
Total	**112.9**	**249.2**	**264.9**	**190.6**	**214.6**

Income Tax

We are subject to Hong Kong profits tax. The Hong Kong profits tax rate is currently 16.5% of assessable profit. All profits tax assessed for the Track Record Period has been paid when due. Our income tax for FY2010, FY2011, FY2012, 9M2012 and 9M2013 was HK$936.1 million, HK$888.9 million, HK$890.9 million, HK$715.2 million and HK$660.7 million, respectively. Our effective tax rate was 16.7%, 16.7%, 16.6%, 16.6% and 16.6% during the same periods, respectively.

Scheme of Control Transfers

Our Scheme of Control transfers consist of transfers from/to the Tariff Stabilisation Fund and transfers to the Rate Reduction Reserve.

Our financial results are affected by the Scheme of Control, which provides for a Permitted Return and requires that we maintain a Tariff Stabilisation Fund in order to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions, where appropriate. Should the Gross Tariff Revenue exceed or be less than the total Tariff Stabilisation Adjustments, such excess is added to or such deficiency is deducted from the Tariff Stabilisation Fund, provided that in the case of a deficiency, the transferred amount may not exceed the balance of the Tariff Stabilisation Fund. In other words, if our Scheme of Control net revenue is lower than our Permitted Return, we transfer an amount equal to the deficiency from the Tariff Stabilisation Fund to our statement of profit or loss, and if our Scheme of Control net revenue exceeds the Permitted Return, an amount equal to the excess is transferred from our statement of profit or loss to the Tariff Stabilisation Fund. The balance in the Tariff Stabilisation Fund represents a liability in our financial statements.

In terms of the Rate Reduction Reserve, in each year, charges to be credited to such reserve are calculated by applying the average one month HIBOR per annum on the average of the opening and closing balances of the Tariff Stabilisation Fund for that year. The resulting amount is then transferred from our statement of profit or loss to the Rate Reduction Reserve and is subsequently rebated to customers. The purpose of the Rate Reduction Reserve is to reduce, by means of rebates, electricity tariffs to customers.

RESULTS OF OPERATIONS

The following table sets out selected items in our consolidated statements of profit or loss and consolidated statements of comprehensive income:

	FY2010	FY2011	FY2012	9M2012 (unaudited)	9M2013
			(HK$ in millions)		
Turnover	10,363.0	10,184.8	10,399.6	8,061.5	7,885.5
Standard fuel costs	(1,776.0)	(1,783.4)	(1,805.6)	(1,404.4)	(1,360.8)
Direct costs	(2,159.2)	(2,239.4)	(2,347.2)	(1,729.1)	(1,822.2)
	6,427.8	6,162.0	6,246.8	4,928.0	4,702.4
Other revenue and other net income	34.2	50.4	32.1	26.0	22.4
Other operating costs	(734.4)	(639.9)	(652.0)	(458.7)	(520.8)
Finance costs	(112.9)	(249.2)	(264.9)	(190.6)	(214.6)
Profit before taxation	5,614.7	5,323.4	5,362.0	4,304.8	3,989.4
Income tax	(936.1)	(888.9)	(890.9)	(715.2)	(660.7)
Profit after taxation	4,678.7	4,434.5	4,471.1	3,589.6	3,328.7
Scheme of Control transfers (to)/from:					
Tariff Stabilisation Fund	(58.2)	46.1	72.0	(152.3)	235.0
Rate Reduction Reserve	(0.9)	(1.0)	(1.4)	(1.1)	(0.4)
Profit attributable to the equity shareholders of HEC	4,619.5	4,479.5	4,541.7	3,436.1	3,563.3
Other comprehensive income/(losses) for the year/period, net of tax	394.3	(726.8)	13.3	(149.7)	590.1
Total comprehensive income for the year/period attributable to the equity shareholders of HEC	5,013.8	3,752.8	4,555.0	3,286.5	4,153.4
			(HK$)		
Earnings per share — Basic and diluted	3.83	3.71	3.77	2.85	2.96

9M2013 compared to 9M2012

Turnover

Our turnover decreased by 2.2% from HK$8,061.5 million for 9M2012 to HK$7,885.5 million for 9M2013, primarily due to decreases in sales of electricity.

Sales of Electricity

Turnover from sales of electricity decreased by 2.2% from HK$8,044.7 million for 9M2012 to HK$7,871.1 million for 9M2013, primarily due to a decrease in the number of units of electricity sold to our customers as a result of milder weather during the period and drier weather in the early months of the year, which exerted downward pressure on electricity demand.

Concessionary Discount on Sales of Electricity

Our concessionary discount on sales of electricity decreased by 6.1% from HK$5.2 million for 9M2012 to HK$4.9 million for 9M2013, primarily due to a decrease in the number of customers who qualify for a concessionary discount.

Electricity-related Income

Turnover from electricity-related income decreased by 12.4% from HK$22.0 million for 9M2012 to HK$19.2 million for 9M2013, primarily due to a decrease in service charges for summation meters which was partially offset by an increase in service charges for permanent supply.

Standard Fuel Costs

Our standard fuel costs decreased by 3.1% from HK$1,404.4 million for 9M2012 to HK$1,360.8 million for 9M2013, primarily due to a decrease in the number of units of electricity sold.

Direct Costs

Our direct costs increased by 5.4% from HK$1,729.1 million for 9M2012 to HK$1,822.2 million for 9M2013, primarily due to an increase in staff costs and depreciation. The increase in staff costs primarily reflected an increase in salaries paid to our employees. The increase in depreciation primarily reflected an increase in the amount of our fixed assets. For further information regarding our fixed assets purchased, see " — *Cash Used in Investing Activities"* below.

Other Revenue and Other Net Income

Our other revenue and other net income decreased by 14.0% from HK$26.0 million for 9M2012 to HK$22.4 million for 9M2013, primarily due to a decrease in sundry income resulting from a decrease in customers' deposits forfeited and scrap sales, together with a decrease in interest income.

Other Operating Costs

Our other operating costs increased by 13.6% from HK$458.7 million for 9M2012 to HK$520.8 million for 9M2013, primarily due to an increase in administration costs, primarily reflecting an increase in administrative staff costs, together with an increase in depreciation primarily as a result of the commissioning of our ERP (Enterprise Resource Planning) system in 2012.

Finance Costs

Our finance costs increased by 12.6% from HK$190.6 million for 9M2012 to HK$214.6 million for 9M2013, primarily due to an increase in average effective interest rates.

Profit Before Taxation

As a result of the foregoing, our profit before taxation decreased by 7.3% from HK$4,304.8 million for 9M2012 to HK$3,989.4 million for 9M2013.

Income Tax

Our income tax decreased by 7.6% from HK$715.2 million for 9M2012 to HK$660.7 million for 9M2013 as a result of a decrease in profit before taxation. Our effective tax rate remained stable at 16.6% for 9M2012 and 9M2013.

Profit After Taxation

As a result of the foregoing, our profit after taxation decreased by 7.3% from HK$3,589.6 million for 9M2012 to HK$3,328.7 million for 9M2013.

Scheme of Control Transfers

We recorded net Scheme of Control transfers to the Tariff Stabilisation Fund and the Rate Reduction Reserve of HK$153.4 million for 9M2012 and net Scheme of Control transfers from the Tariff Stabilisation Fund and the Rate Reduction Reserve of HK$234.6 million for 9M2013.

Tariff Stabilisation Fund

We recorded a Scheme of Control transfer to the Tariff Stabilisation Fund of HK$152.3 million for 9M2012 and a Scheme of Control transfer from the Tariff Stabilisation Fund of HK$235.0 million for 9M2013. The transfer to the Tariff Stabilisation Fund for 9M2012 was primarily due to the excess of the Gross Tariff Revenue over the Tariff Stabilisation Adjustments. The transfer from the Tariff Stabilisation Fund for 9M2013 was primarily due to the Gross Tariff Revenue falling short of the Tariff Stabilisation Adjustments.

Rate Reduction Reserve

Our Scheme of Control transfer to the Rate Reduction Reserve decreased by 68.7% from HK$1.1 million for 9M2012 to HK$0.4 million for 9M2013, primarily reflecting a decrease in the average balance of the Tariff Stabilisation Fund.

Profit Attributable to the Equity Shareholders of HEC

As a result of the foregoing, profit attributable to the equity shareholders of HEC increased by 3.7% from HK$3,436.1 million for 9M2012 to HK$3,563.3 million for 9M2013.

Other Comprehensive Income/(Losses) for the Period, Net of Tax

For 9M2012, we recorded other comprehensive losses for the period net of tax of HK$149.7 million. For 9M2013, we recorded other comprehensive income for the period net of tax of HK$590.1 million. The income recorded in 9M2013 was primarily due to a HK$693.9 million remeasurement of net defined benefit obligations, partially offset by a HK$114.5 million deferred tax charge to other comprehensive income in 9M2013. This re-measurement of net defined benefit obligations primarily resulted from a change in discount rates used in the actuarial valuation method (1.5% at the beginning of 9M2012 to 0.8% at the end of 9M2012 and further to 2.3% at the end of 9M2013) by our independent actuaries. The discount rate used by our independent actuaries is based on the market interest rates which are based on Hong Kong exchange fund note yields. The change in discount rates was primarily attributable to changes in such interest rates from 9M2012 to 9M2013.

Total Comprehensive Income for the Period and Attributable to the Equity Shareholders of HEC

Total comprehensive income for the period and attributable to the equity shareholders of HEC increased by 26.4% from HK$3,286.5 million for 9M2012 to HK$4,153.4 million for 9M2013, primarily due to an increase in our other comprehensive income for the period, net of tax and, to a lesser extent, an increase in our profit attributable to the equity shareholders of HEC.

FY2012 compared to FY2011

Turnover

Our turnover increased by 2.1% from HK$10,184.8 million for FY2011 to HK$10,399.6 million for FY2012, primarily due to an increase in sales of electricity. This amount was partially offset by (i) a decrease in electricity-related income and (ii) an increase in concessionary discounts on sales of electricity.

Sales of Electricity

Turnover from sales of electricity increased by 2.2% from HK$10,140.1 million for FY2011 to HK$10,363.7 million for FY2012, primarily due to (i) an increase in the number of units of electricity sold and (ii) an increase in the average basic tariff charged to our customers. The increase in the number of units of electricity sold was primarily the result of warmer weather in certain months in FY2012 which resulted in increased demand for electricity.

Concessionary Discount on Sales of Electricity

Our concessionary discount on sales of electricity increased by 6.5% from HK$6.5 million for FY2011 to HK$6.9 million for FY2012, primarily due to an increase in the average amount of discount per concessionary customer.

Electricity-related Income

Turnover from electricity-related income decreased by 16.5% from HK$51.2 million for FY2011 to HK$42.8 million for FY2012, primarily due to a decrease in service charges for permanent supply. Such decrease was partially offset by an increase in service charges for summation meters.

Standard Fuel Costs

Our standard fuel costs increased by 1.2% from HK$1,783.4 million for FY2011 to HK$1,805.6 million for FY2012, primarily due to an increase in the number of units of electricity sold.

Direct Costs

Our direct costs increased by 4.8% from HK$2,239.4 million for FY2011 to HK$2,347.2 million for FY2012, primarily due to increases in staff costs and depreciation. The increase in staff costs primarily reflected an increase in salaries paid to our employees. The increase in depreciation primarily reflected an increase in the amount of our fixed assets. For further information regarding our fixed assets purchased, see " — *Cash Used in Investing Activities*" below.

Other Revenue and Other Net Income

Our other revenue and other net income decreased by 36.2% from HK$50.4 million for FY2011 to HK$32.1 million for FY2012, primarily due to a decrease in sundry income resulting from the recovery of administrative expenses from prior years in FY2011. This recovery did not occur in FY2012.

Other Operating Costs

Our other operating costs increased by 1.9% from HK$639.9 million for FY2011 to HK$652.0 million for FY2012, primarily due to an increase in administration costs, primarily reflecting an increase in administrative staff costs. This amount was partially offset by a decrease in rates and government rent.

Finance Costs

Our finance costs increased by 6.3% from HK$249.2 million for FY2011 to HK$264.9 million for FY2012, primarily due to (i) an increase in average effective interest rates and (ii) front-end fees paid for new bank facilities.

Profit Before Taxation

As a result of the foregoing, our profit before taxation increased by 0.7% from HK$5,323.4 million for FY2011 to HK$5,362.0 million for FY2012.

Income Tax

Our income tax remained relatively stable at HK$888.9 million for FY2011 and HK$890.9 million for FY2012. Our effective tax rate also remained relatively stable at 16.7% for FY2011 and 16.6% for FY2012.

Profit After Taxation

As a result of the foregoing, our profit after taxation increased by 0.8% from HK$4,434.5 million for FY2011 to HK$4,471.1 million for FY2012.

Scheme of Control Transfers

We recorded net Scheme of Control transfers from the Tariff Stabilisation Fund and the Rate Reduction Reserve of HK$70.6 million for FY2012, an increase of 56.7% from HK$45.0 million for FY2011.

Tariff Stabilisation Fund

We recorded a Scheme of Control transfer from the Tariff Stabilisation Fund of HK$72.0 million for FY2012, an increase of 56.3% from HK$46.1 million for FY2011. The increase in the transfer amount was primarily due to the Gross Tariff Revenue falling short of the Tariff Stabilisation Adjustments.

Rate Reduction Reserve

Our Scheme of Control transfer to the Rate Reduction Reserve increased by 38.0% from HK$1.0 million for FY2011 to HK$1.4 million for FY2012, primarily reflecting an increase in average one month HIBOR per annum.

Profit Attributable to the Equity Shareholders of HEC

As a result of the foregoing, profit attributable to the equity shareholders of HEC increased by 1.4% from HK$4,479.5 million for FY2011 to HK$4,541.7 million for FY2012.

Other Comprehensive Income/(Losses) for the Year, Net of Tax

For FY2011, we recorded other comprehensive losses for the year net of tax of HK$726.8 million. For FY2012, we recorded other comprehensive income for the year net of tax of HK$13.3 million. The income recorded in FY2012 was primarily due to a HK$124.5 million re-measurement of net defined benefit obligations offset by a HK$130.8 million deferred tax credit to other comprehensive income in FY2012. This re-measurement of net defined benefit obligations primarily resulted from a change in discount rates used in the actuarial valuation method (3.0% at the beginning of FY2011 to 1.5% at the end of FY2011 and further to 0.8% at the end of FY2012) by our independent actuaries. The discount rate used by our independent actuaries is based on the market interest rates which are based on Hong Kong exchange fund note yields. The change in discount rates was primarily attributable to changes in such interest rates from FY2011 to FY2012.

Total Comprehensive Income for the Year Attributable to the Equity Shareholders of HEC

Total comprehensive income for the year and attributable to the equity shareholders of HEC increased by 21.4% from HK$3,752.8 million for FY2011 to HK$4,555.0 million for FY2012. This was primarily due to increases in our other comprehensive income for the year, net of tax, as well as increases in our profit attributable to the equity shareholders of HEC.

FY2011 compared to FY2010

Turnover

Our turnover decreased by 1.7% from HK$10,363.0 million for FY2010 to HK$10,184.8 million for FY2011, primarily due to a decrease in turnover from the sales of electricity. This amount was partially offset by an increase in electricity-related income.

Sales of Electricity

Turnover from our sales of electricity decreased by 1.9% from HK$10,337.6 million for FY2010 to HK$10,140.1 million for FY2011, primarily due to (i) a reduction in the number of units of electricity sold and (ii) a decrease in the average basic tariff charged to our customers. The decrease in the number of units of electricity sold was primarily the result of milder weather in certain months in FY2011 which resulted in decreased demand for electricity.

Concessionary Discount on Sales of Electricity

Concessionary discount on sales of electricity increased by 7.7% from HK$6.0 million for FY2010 to HK$6.5 million for FY2011, primarily due to an increase in the number of customers eligible to receive a concessionary discount.

Electricity-related Income

Turnover from electricity-related income increased by 63.3% from HK$31.4 million for FY2010 to HK$51.2 million for FY2011, primarily due to increases in services charges for both permanent supply and site service.

Standard Fuel Costs

Our standard fuel costs remained stable at HK$1,776.0 million for FY2010 and HK$1,783.4 million for FY2011.

Direct Costs

Our direct costs increased by 3.7% from HK$2,159.2 million for FY2010 to HK$2,239.4 million for FY2011, primarily due to an increase in staff costs and depreciation. The increase in staff costs primarily reflected an increase in salaries paid to our employees. The increase in depreciation primarily reflected an increase in the amount of our fixed assets. For further information regarding our fixed assets purchased, see " — *Cash Used in Investing Activities*" below.

Other Revenue and Other Net Income

Our other revenue and other net income increased by 47.3% from HK$34.2 million for FY2010 to HK$50.4 million for FY2011, primarily attributable to an increase in sundry income as a result of the recovery of administrative expenses from prior years in FY2011.

Other Operating Costs

Our other operating costs decreased by 12.9% from HK$734.4 million for FY2010 to HK$639.9 million for FY2011, primarily due to a decrease in rates and government rent.

Finance Costs

Our finance costs increased by 120.8% from HK$112.9 million for FY2010 to HK$249.2 million for FY2011, primarily due to the issuance of MTNs of US$500 million at the end of FY2010 followed by the issuance of MTNs of US$250 million at the beginning of FY2011.

Profit Before Taxation

As a result of the foregoing, our profit before taxation decreased by 5.2% from HK$5,614.7 million for FY2010 to HK$5,323.4 million for FY2011.

Income Tax

Our income tax decreased by 5.0% from HK$936.1 million for FY2010 to HK$888.9 million for FY2011, primarily due to the 5.2% decrease in our profit before taxation during the same period. Our effective tax rate remained stable at 16.7% for FY2010 and FY2011.

Profit After Taxation

As a result of the foregoing, our profit after taxation decreased by 5.2% from HK$4,678.7 million for FY2010 to HK$4,434.5 million for FY2011.

Scheme of Control Transfers

We recorded net Scheme of Control transfers to the Tariff Stabilisation Fund and the Rate Reduction Reserve of HK$59.1 million for FY2010 and net Scheme of Control transfers from the Tariff Stabilisation Fund and the Rate Reduction Reserve of HK$45.0 million for FY2011.

Tariff Stabilisation Fund

We recorded a Scheme of Control transfer to the Tariff Stabilisation Fund of HK$58.2 million for FY2010 and a Scheme of Control transfer from the Tariff Stabilisation Fund of HK$46.1 million for FY2011. The transfer to the Tariff Stabilisation Fund in FY2010 was primarily due to the excess of the Gross Tariff Revenue over the Tariff Stabilisation Adjustments. The transfer from the Tariff Stabilisation Fund for FY2011 was primarily due to the Gross Tariff Revenue falling short of the Tariff Stabilisation Adjustments.

Rate Reduction Reserve

Our Scheme of Control transfer to the Rate Reduction Reserve increased by 9.7% from HK$0.9 million for FY2010 to HK$1.0 million for FY2011, primarily reflecting the increase in average one month HIBOR per annum.

Profit Attributable to the Equity Shareholders of HEC

As a result of the foregoing, profit attributable to the equity shareholders of HEC decreased by 3.0% from HK$4,619.5 million for FY2010 to HK$4,479.5 million for FY2011.

Other Comprehensive Income/(Losses) for the Year, Net of Tax

For FY2010, we recorded other comprehensive income for the year net of tax of HK$394.3 million. For FY2011, we recorded other comprehensive losses for the year net of tax of HK$726.8 million. The losses in FY2011 were primarily due to a significant loss of HK$856.2 million attributable to a re-measurement of net defined benefit obligations. The loss was partially offset by a HK$141.3 million deferred tax credit to other comprehensive income in FY2011. The re-measurement of net defined benefit obligations was primarily the result of a change in discount rates used in the actuarial valuation method (from 2.6% at the beginning of FY2010 to 3.0% at the end of FY2010 and further to 1.5% at the end of FY2011) by our independent actuaries. The discount rate used by our independent actuaries is based on market interest rates which are derived from Hong Kong exchange fund note yields. The change in discount rate was primarily attributable to changes in such interest rates from FY2010 to FY2011.

Total Comprehensive Income for the Year Attributable to the Equity Shareholders of HEC

Total comprehensive income for the year and attributable to the equity shareholders of HEC decreased by 25.2% from HK$5,013.8 million for FY2010 to HK$3,752.8 million for FY2011. This was primarily due to the losses resulting from a re-measurement of net defined benefit obligations in our other comprehensive losses for the year, net of tax in FY2011.

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL MANAGEMENT

Overview

Our principal sources of liquidity to date have been cash generated from our operations, bank loans and debt financing, including the amounts raised under our MTN programme, a loan from our ultimate holding company, loan capital and customer deposits. Our principal uses of cash comprise our operating costs, fuel supply costs, equipment maintenance costs and other capital expenditures to fund the acquisition of fixed assets and expansion of our business.

As at 31 December 2010, 2011 and 2012 and 30 September 2013, we had cash and bank balances of HK$8.7 million, HK$23.8 million, HK$7.6 million and HK$7.8 million, respectively. In the past, we typically transferred our cash to our then holding company for centralised cash fund management. Upon Listing, we will handle our cash fund management independently. We aim to ensure that we will have sufficient access to liquidity as and when the need arises by establishing committed banking facilities.

Capital Management

Our primary objectives when managing capital are to (i) provide returns by securing access to financing at a reasonable cost, (ii) support the stability of our existing operations as well as future growth and (iii) provide capital for the purpose of strengthening our risk management capability. We actively and regularly review and manage our capital structure, taking into consideration our future capital requirements and capital efficiency, forecast profitability, forecast operating cash flows, forecast capital expenditure and projected investment opportunities. Our strategy is to control our level of debt in order to secure access to financing at a reasonable cost. In order to maintain or adjust our level of debt, we may adjust the amount of dividends paid, issue new shares, return capital, raise new debt financing or sell assets to reduce debt. For more information, see note 28(f) of Section B of *"Appendix I — Accountants' Report"*.

Net Current Assets/(Liabilities)

The following table sets out our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 September	As at 30 November
	2010	2011	2012	2013	2013
	(HK$ in millions)				
Current assets					
Inventories	746.9	1,115.1	1,114.5	990.3	895.0
Trade and other receivables	1,118.0	1,078.1	1,182.9	1,669.0	1,326.6
Amounts due from fellow subsidiaries	1.7	5.6	5.5	5.5	—
Fuel Clause Recovery Account	569.5	1,035.2	819.8	—	—
Cash and bank balances	8.7	23.8	7.6	7.8	170.0
Total current assets	2,444.9	3,257.8	3,130.3	2,672.6	2,391.6
Current liabilities					
MTNs	—	(501.8)	—	—	(499.9)
Amount due to a fellow subsidiary	(10.2)	(10.2)	—	—	—
Current portion of bank loans	(50.0)	(115.0)	(5,310.5)	(792.0)	—
Bank overdrafts — unsecured	(1.7)	—	(5.9)	(6.0)	—
Trade and other payables	(1,569.4)	(2,559.9)	(2,310.4)	(1,931.2)	(1,926.1)
Fuel Clause Recovery Account	—	—	—	(1.9)	(65.6)
Current taxation	(156.7)	(218.2)	(330.0)	(912.5)	(293.9)
Total current liabilities	(1,787.9)	(3,405.2)	(7,956.8)	(3,643.7)	(2,785.5)
Net current assets/(liabilities)	657.0	(147.4)	(4,826.5)	(971.1)	(393.9)

We recorded 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. Our net current liabilities position as at 31 December 2011 primarily reflected (i) the increase in our trade and other payables and (ii) the increase in the current portion of our MTNs in accordance with their repayment schedules. Our net current liabilities position as at 31 December 2012 primarily reflected a significant increase in the current portion of our bank loans. During 2012, certain bank loans that were previously classified as non-current became due within one year in accordance with their repayment schedules and hence were classified as current liabilities. Our net current liabilities position as at 30 September 2013 primarily reflected a decrease in the current portion of our bank loans. The current portion of our bank loans decreased from HK$5,310.5 million as at 31 December 2012 to HK$792.0 million as at 30 September 2013, 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. During the Track Record Period, we maintained a relatively stable level of total borrowings (comprising MTNs, bank loans, bank overdrafts and loan from ultimate holding company) of HK$25,778.5 million, HK$27,308.0 million, HK$27,209.3 million and HK$27,082.5 million as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. During the same periods, the balance of loan capital received from PAH was HK$8,845.0 million and was accounted for as part of our equity. Our net current liabilities position is also a result of our centralised cash fund management, under which we transferred substantially all of our cash and bank balances to our then holding company. As at 30 November 2013, we recorded net current liabilities of HK$393.9 million, primarily reflecting an increase in the current portion of our MTNs in accordance with their repayment schedules, which was partially offset by an increase in cash and bank balances as a result of the discontinuation of our centralised cash fund management beginning November 2013 and a decrease in current taxation as a result of tax payments made in accordance with a tax demand note issued by the IRD.

Settlement of the Acquisition Consideration

On the Completion Date (which is the same date as the Listing Date), we expect to settle the Acquisition Consideration through:

- the issuance of the Consideration Share Stapled Units to Quickview (at the direction of PAH);
- the payment to PAH of the net proceeds from the Global Offering (being the gross proceeds less underwriting commissions and any incentive fees in relation to the Global Offering payable by HK Electric Investments and the Company) (for the avoidance of doubt, excluding any exercise of the Over-allotment Option); and
- as to the balance, through the issuance of the Promissory Note by Treasure Business in favour of PAH.

Disbursement of the Proceeds from the Loan Facilities

In preparation for the Reorganisation and the Acquisition, we have obtained the HEC Loan Facility and the Company Loan Facility, which together total approximately HK$37,000.0 million.

On or before the fifth business day following the Listing Date, we intend to utilise the proceeds of the HEC Loan Facility of approximately HK$28,300.0 million in the following manner:

- approximately HK$27,445.3 million will be applied towards repayment in full of all amounts outstanding under the Inter-company Loans, comprising (i) HK$18,600.3 million outstanding under various loans and advances from PAH and (ii) HK$8,845.0 million of outstanding loan capital;
- approximately HK$600.0 million will be applied towards payment of capital expenditure incurred or expected to be incurred by HEC up to the Listing Date but unpaid as of such date; and
- approximately HK$254.7 million will be applied towards payment of a front end fee in respect of the HEC Loan Facility.

On or before the fifth business day following the Listing Date, we intend to utilise the proceeds of the Company Loan Facility of approximately HK$8,700.0 million in the following manner:

- approximately HK$8,502.6 million will be applied towards redemption of the Promissory Note to be issued by Treasure Business in favour of PAH;
- approximately HK$109.1 million will be applied towards payment of various costs and expenses relating to the Global Offering which are to be borne by the Company;
- approximately HK$10.0 million will be applied towards funding working capital requirements of the Company and its subsidiaries; and
- approximately HK$78.3 million will be applied towards payment of a front end fee in respect of the Company Loan Facility.

The proceeds of the HEC Loan Facility and the Company Loan Facility are expected to be utilised on or before the fifth business day following the Listing Date in order to cater for the time required for the lenders to process the drawdown. Amounts to be drawn under the HEC Loan Facility and the Company Loan Facility will be repayable after more than one year and will thus be recorded as non-current liabilities. Neither the HEC Loan Facility nor the Company Loan Facility will be guaranteed by PAH.

In addition, as at and from the Listing Date to 31 December 2014 (being the period covered by the 2014 Profit Forecast), we expect to have in place at least HK$500.0 million of committed and available banking facilities, which we can draw to fund the Group's general working capital.

Immediately following the redemption of the Promissory Note as set out above, we expect our total outstanding borrowings to amount to approximately HK$48,328.5 million. As a result of the foregoing, and together with retained cash generated from our operations, we expect to have a net current asset position upon Listing.

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, the interest rates with respect to the interest bearing 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. In addition, goodwill will be created and the amount of our depreciation and amortisation charges will also significantly increase. Such 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. On a year-on-year comparison, such increases in our interest charges and depreciation and amortisation charges account for the great majority of the reduction in the amount of the 2014 Profit Forecast (on an annualised basis) relative to the amounts of the profit attributable to the equity shareholders of HEC for FY2010, FY2011, FY2012 and the 2013 Profit Estimate. The goodwill that will be created as a result of the Acquisition may be subject to future impairment. If the carrying amount of the CGU (i.e., the HEC cash generating unit) to which the goodwill arising on the Acquisition will be allocated exceeds the recoverable amount of the CGU after the Listing Date, there may be a reduction in the goodwill initially recognised as a result of the Acquisition. Any impairment of goodwill would impact our consolidated profit attributable to the Holders of Share Stapled Units. However, depreciation and amortisation charges and impairment of goodwill do not result in any cash outflows and form part of the Adjustments, the effects of which will be eliminated in calculating the Group Distributable Income and in calculating the amounts of the distributions to Registered Holders of Share Stapled Units commencing from the Listing Date. For further information, see *"Risk Factors — Risks Relating to Our Operations — Changes in interest rates and increases in depreciation and amortisation charges and impairment of goodwill may have a significant impact on our profits and results of operations"*.

Taking into account our cash generated from operating activities, the bank facilities available to us and amounts from other sources of funds we expect to raise (including the proceeds from the Global Offering), the Directors believe that we have sufficient working capital for our present requirements and for the 12 months from the date of this prospectus.

CASH FLOW

The following table sets out a summary of our net cash flow and our cash and cash equivalents as at and for the periods indicated:

	FY2010	FY2011	FY2012	9M2012 (unaudited)	9M2013
			(HK$ in millions)		
Net cash generated from operating activities	6,616.3	6,437.8	6,689.7	5,409.8	5,934.6
Net cash used in investing activities	(2,283.6)	(2,531.7)	(2,675.7)	(2,132.5)	(1,583.0)
Net cash used in financing activities	(4,410.8)	(3,889.4)	(4,036.1)	(3,274.6)	(4,351.5)
(Decrease)/increase in cash and cash equivalents	(78.1)	16.8	(22.1)	2.8	0.1

	As at 31 December			As at 30 September	
	2010	2011	2012	2012 (unaudited)	2013
			(HK$ in millions)		
Cash and cash equivalents					
Cash and bank balances	8.7	23.8	7.6	26.6	7.8
Bank overdraft - unsecured	(1.7)	—	(5.9)	—	(6.0)
	7.0	23.8	1.7	26.6	1.8

Cash Generated from Operating Activities

Cash inflow from operating activities primarily consists of cash generated from operations. Our cash outflow from operating activities primarily consists of Hong Kong profits tax paid and interest paid.

Our net cash generated from operating activities was HK$5,934.6 million for 9M2013, primarily reflecting cash generated from operations of HK$6,327.1 million, offset by interest paid of HK$230.1 million and Hong Kong profits tax paid of HK$162.4 million. Our cash generated from operations primarily reflected profit before taxation of HK$3,989.4 million adjusted for depreciation of HK$1,441.1 million and finance costs of HK$214.6 million. The changes in working capital primarily reflected an increase in trade and other receivables of HK$431.2 million, primarily due to an increase in trade debtors as a result of an increase in seasonal electricity demand, offset principally by an inflow in the Fuel Clause Recovery Account of HK$821.7 million.

Our net cash generated from operating activities was HK$5,409.8 million for 9M2012, primarily reflecting cash generated from operations of HK$5,803.4 million, offset by interest paid of HK$221.9 million and Hong Kong profits tax paid of HK$172.0 million. Our cash generated from operations primarily reflected profit before taxation of HK$4,304.8 million adjusted for depreciation of HK$1,373.4 million and finance costs of HK$190.6 million. The changes in working capital primarily reflected an increase in trade and other receivables of HK$475.6 million, primarily due to an increase in trade debtors as a result of an increase in seasonal electricity demand, partially offset by (i) a decrease in inventories of HK$234.9 million which reflected the fluctuation in our inventory level as part of our normal course of business and (ii) an inflow in the Fuel Clause Recovery Account of HK$208.0 million.

Our net cash generated from operating activities was HK$6,689.7 million for FY2012, primarily reflecting cash generated from operations of HK$7,603.3 million, offset by interest paid of HK$292.7 million and Hong Kong profits tax paid of HK$621.1 million. Our cash generated from operations primarily reflected profit before taxation of HK$5,362.0 million adjusted for depreciation of HK$1,862.2 million and finance costs of HK$264.9 million. The changes in working capital primarily reflected (i) an increase in trade and other receivables of HK$99.8 million, primarily due to increases in sales of electricity and (ii) a decrease in net employee retirement benefit scheme liabilities of HK$74.7 million. These amounts were offset primarily by an inflow in the Fuel Clause Recovery Account of HK$215.4 million.

Our net cash generated from operating activities was HK$6,437.8 million for FY2011, primarily reflecting cash generated from operations of HK$7,319.7 million, offset by interest paid of HK$314.5 million and Hong Kong profits tax paid of HK$563.5 million. Our cash generated from operations primarily reflected profit before taxation of HK$5,323.4 million adjusted for depreciation of HK$1,779.4 million and finance costs of HK$249.2 million. The changes in working capital primarily reflected, among other things, an outflow in the Fuel Clause Recovery Account of HK$465.7 million and an increase of HK$360.0 million in inventories primarily due to an increase in the price of coal, as well as the fact that a portion of our coal supply was in transit at the end of 2011. The increase was partially offset by an increase of HK$763.1 million in trade and other payables, primarily reflecting a rates and government rent refund received.

Our net cash generated from operating activities was HK$6,616.3 million for FY2010, primarily reflecting cash generated from operations of HK$7,661.4 million, offset by interest paid of HK$156.8 million and Hong Kong profits tax paid of HK$877.6 million. Our cash generated from operations primarily reflected profit before taxation of HK$5,614.7 million adjusted for depreciation of HK$1,736.0 million and finance costs of HK$112.9 million. The changes in working capital primarily reflected, among other things, a decrease of HK$206.0 million in inventories, primarily reflecting the fluctuation in our inventory level as part of our normal course of business. This decrease was partially offset by a decrease of HK$94.5 million in net employee retirement benefit scheme liabilities.

Cash Used in Investing Activities

Our cash outflow used in investing activities primarily consisted of purchases of fixed assets and capital stock, as well as capitalised interest paid, which is interest paid in connection with the financing of assets under construction. Our cash inflow from investing activities primarily consisted of proceeds from the disposal of fixed assets.

For 9M2013, our net cash used in investing activities was HK$1,583.0 million. The net cash outflow was primarily attributable to (i) purchases of fixed assets and capital stock of HK$1,537.9 million, which were primarily related to assets under construction and plant, machinery and equipment, including but not limited to, upgrading our generation facilities and various cabling and distribution infrastructure; and (ii) capitalised interest paid of HK$47.1 million.

For 9M2012, our net cash used in investing activities was HK$2,132.5 million. The net cash outflow was primarily attributable to (i) purchases of fixed assets and capital stock of HK$2,075.3 million, which were primarily related to assets under construction and plant, machinery and equipment, including but not limited to, equipment purchased to supply electricity to the MTR West Island and South Island lines, upgrading our generation facilities and various cabling and distribution infrastructure; and (ii) capitalised interest paid of HK$58.3 million.

For FY2012, our net cash used in investing activities was HK$2,675.7 million. The net cash outflow was primarily attributable to (i) purchases of fixed assets and capital stock of HK$2,605.0 million, which were primarily related to plant, machinery and equipment and assets under construction, including but not limited to, extending our generation and maintenance facilities on Lamma Island, purchasing equipment to supply electricity to the MTR West Island and South Island lines and replacing cables and overhead lines; and (ii) capitalised interest paid of HK$72.6 million.

For FY2011, our net cash used in investing activities was HK$2,531.7 million. The net cash outflow was primarily attributable to (i) purchases of fixed assets and capital stock of HK$2,477.6 million, which were primarily related to plant, machinery and equipment and assets under construction, including but not limited to, system expansions in order to phase out existing overhead lines, upgrading turbines, extending our generation and maintenance facilities on Lamma Island and replacing cables; and (ii) capitalised interest paid of HK$55.0 million.

For FY2010, our net cash used in investing activities was HK$2,283.6 million. The net cash outflow was primarily attributable to (i) purchases of fixed assets and capital stock of HK$2,236.0 million, which were primarily related to plant, machinery and equipment and assets under construction, including but not limited to, retrofitting portions of our facilities, improving reliability and maintaining and upgrading cables and turbines; and (ii) capitalised interest paid of HK$51.7 million.

Cash Used in Financing Activities

Our cash inflow from financing activities primarily consisted of proceeds from the issuance of MTNs, new bank loans and new customers' deposits. Our cash outflow from financing activities primarily consisted of dividends paid, the repayment of bank loans, the redemption of MTNs and decreases in the amount of the loan from our ultimate holding company as a result of repayment.

For 9M2013, our net cash used in financing activities was HK$4,351.5 million. The net cash outflow primarily consisted of dividends paid of HK$4,615.6 million and the repayment of bank loans of HK$5,000.0 million, partially offset by an increase in the amount of the loan from our ultimate holding company of HK$2,542.2 million, proceeds from new bank loans of HK$1,980.0 million and proceeds from the issuance of MTNs of HK$700.0 million.

For 9M2012, our net cash used in financing activities was HK$3,274.6 million. The net cash outflow primarily consisted of dividends paid of HK$3,760.9 million, the redemption of MTNs of HK$500.0 million and a decrease in the amount of the loan from our ultimate holding company of HK$265.7 million as a result of repayment, partially offset by proceeds from the issuance of MTNs of HK$800.0 million and proceeds from new bank loans of HK$425.0 million, primarily used to finance our capital expenditures and provide working capital.

For FY2012, our net cash used in financing activities was HK$4,036.1 million. The net cash outflow primarily consisted of dividends paid of HK$3,760.9 million, a decrease in the amount of the loan from our ultimate holding company as a result of repayment of HK$809.8 million and the redemption of MTNs of HK$500.0 million. Such amounts were partially offset by proceeds from the issuance of MTNs of HK$800.0 million. The proceeds from the issuance of MTNs were primarily used to finance our capital expenditures and provide working capital.

For FY2011, our net cash used in financing activities was HK$3,889.4 million. The net cash outflow primarily consisted of dividends paid of HK$5,005.7 million and a decrease in the amount of the loan from our ultimate holding company of HK$1,656.8 million as a result of repayment, partially offset by proceeds from the issuance of MTNs of US$250.0 million and HK$710.0 million (equivalent to HK$2,654.3 million in total). The proceeds from the issuance of MTNs were primarily used to finance our capital expenditures and provide working capital.

For FY2010, our net cash used in financing activities was HK$4,410.8 million. The net cash outflow primarily consisted of dividends paid of HK$5,519.1 million and a decrease in the amount of the loan from our ultimate holding company of HK$3,671.9 million as a result of repayment, partially offset by proceeds from the issuance of MTNs of US$500.0 million and HK$770.0 million (equivalent to HK$4,659.2 million in total). The proceeds from the issuance of MTNs were primarily used to finance our capital expenditures and provide working capital.

CERTAIN BALANCE SHEET ITEMS

Inventories

Our inventories primarily consist of coal, ultra low sulphur diesel oil, natural gas and stores and materials. We have on average approximately six weeks of fuel reserves (comprising coal, natural gas and ultra low sulphur diesel oil) in order to prepare ourselves for any potential short-term shortages in our fuel supply. While our inventory levels generally remain stable, they may fluctuate from time to time based on, among other things, shipment arrival schedules and customer demands. The following table sets out the breakdown of the total value of our inventories as at the dates indicated below:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Coal	133.1	459.2	411.5	305.2
Fuel oil and natural gas[1]	299.9	321.3	352.4	315.6
Stores and materials[2]	313.9	334.6	350.6	369.5
Total	**746.9**	**1,115.1**	**1,114.5**	**990.3**

Notes:

(1) During FY2010 and FY2011, fuel oil consisted primarily of ultra low sulphur diesel oil and other types of oil. Beginning in FY2012, fuel oil has consisted of ultra low sulphur diesel oil only.

(2) Included in our stores and materials were capital stocks of HK$212.4 million, HK$220.6 million, HK$201.9 million and HK$211.9 million as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. These amounts were purchased for future maintenance of capital assets.

The increase in our total inventories from HK$746.9 million as at 31 December 2010 to HK$1,115.1 million as at 31 December 2011 reflected the increase in the price of coal as well as the fact that a portion of our coal supply was in transit at the end of 2011. Our total inventories remained stable at HK$1,115.1 million and HK$1,114.5 million as at 31 December 2011 and 2012, respectively. Our inventories decreased to HK$990.3 million as at 30 September 2013, primarily due to a decrease in the price of coal and fluctuations in our inventory levels as part of our normal course of business.

Trade and Other Receivables

The table below sets out a summary of our (i) trade and other receivables and (ii) trade receivables turnover days as at and for the dates indicated:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Trade debtors[1]	637.5	637.3	689.7	979.4
Other receivables[2]	420.2	414.1	457.3	658.6
Derivative financial instruments — held as cash flow/fair value hedging instruments	45.8	15.9	0.3	1.7
Deposits and prepayments	14.5	10.8	35.6	29.2
Total trade and other receivables	**1,118.0**	**1,078.1**	**1,182.9**	**1,669.0**

	FY2010	FY2011	FY2012	9M2013
	(Days)			
Trade receivables turnover days[3]	**20.7**	**20.4**	**20.3**	**19.7**

Notes:

(1) Trade debtors for electricity charges that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. We obtain collateral in the form of security deposits or bank guarantees from customers and the balances are considered to be fully recoverable.

(2) Included in our other receivables are unbilled electricity charges of HK$369.7 million, HK$378.6 million, HK$404.3 million and HK$586.1 million as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively.

(3) Trade receivables turnover days equals the average monthly balance of trade debtors divided by the average monthly turnover and multiplied by the average number of days in a month during the relevant periods.

We recorded trade and other receivables of HK$1,118.0 million, HK$1,078.1 million, HK$1,182.9 million and HK$1,669.0 million as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. Our trade and other receivables primarily comprised amounts due from trade debtors for electricity charges and other receivables that related to unbilled electricity charges. Our trade and other receivables decreased from HK$1,118.0 million as at 31 December 2010 to HK$1,078.1 million as at 31 December 2011 due to a decrease in our derivative financial instruments, primarily reflecting lower revaluation gains from forward foreign exchange contracts purchased for hedging purposes held at the year end. Our total trade and other receivables increased from HK$1,078.1 million as at 31 December 2011 to HK$1,182.9 million as at 31 December 2012, primarily due to an increase in trade debtors and other receivables resulting from increases in sales of electricity at a higher net tariff. Our trade and other receivables further increased to HK$1,669.0 million as at 30 September 2013, primarily due to seasonal electricity demand resulting from warmer temperatures in the middle of the year.

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

With regard to our bad debt policies, our trade debtors are individually assessed for impairment. Any impairment losses are written off against the specific trade debtors directly and no separate account is maintained for impairment losses.

Our trade receivables turnover days remained relatively stable at 20.7 days, 20.4 days, 20.3 days and 19.7 days for FY2010, FY2011, FY2012 and 9M2013, respectively.

The table below sets out an aging analysis of our trade receivables which are not considered to be impaired as at the dates indicated:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Current and within 1 month	582.4	597.2	650.6	922.4
1 to 3 months	36.7	26.2	28.4	46.8
More than 3 months but less than 12 months	18.4	14.0	10.8	10.2
Total trade receivables	**637.5**	**637.3**	**689.7**	**979.4**

As at 30 November 2013, approximately HK$959.3 million, or 97.9% of our trade receivables outstanding as at 30 September 2013 were settled.

Trade and Other Payables

The table below sets out our trade and other payables as at the dates indicated:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Creditors and accruals				
Trade creditors	69.7	16.2	27.2	22.6
Capital expenditure accruals and retention money	786.5	999.6	747.8	289.7
Fuel purchase accruals	154.0	513.9	450.2	466.8
Others	525.7	985.4	1,034.6	1,050.9
	1,535.9	2,515.1	2,259.8	1,830.0
Accrued interest on MTNs	33.0	40.9	40.5	100.9
Derivative financial instruments — held as cash flow/fair value hedging instruments	0.5	3.9	10.1	0.3
Total trade and other payables	**1,569.4**	**2,559.9**	**2,310.4**	**1,931.2**

The table below sets out an aging analysis of our creditors and accruals as at the dates indicated:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Due within 1 month or on demand	517.5	980.9	798.2	552.5
Due after 1 month but within 3 months	403.3	424.5	349.6	191.8
Due after 3 months but within 12 months	615.1	1,109.7	1,112.0	1,085.7
Total creditors and accruals	**1,535.9**	**2,515.1**	**2,259.8**	**1,830.0**

We had trade and other payables of HK$1,569.4 million, HK$2,559.9 million, HK$2,310.4 million and HK$1,931.2 million as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. Our trade and other payables principally comprised creditors and accruals and accrued interest on MTNs. Our trade and other payables increased from HK$1,569.4 million as at 31 December 2010 to HK$2,559.9 million as at 31 December 2011, primarily reflecting a rates and government rent refund received and an increase in capital expenditure accruals. Our total trade and other payables decreased from HK$2,559.9 million as at 31 December 2011 to HK$2,310.4 million as at 31 December 2012, primarily due to a decrease in creditors and accruals resulting from a decrease in the amount of fixed assets purchased. These amounts were partially offset by an increase in derivative financial instruments held as cash flow/fair value hedging instruments attributable to an increase in revaluation losses from forward foreign exchange contracts. Our trade and other payables further decreased to HK$1,931.2 million as at 30 September 2013, primarily reflecting a decrease in capital expenditure accruals during the period, as well as a decrease in derivative financial instruments held as cash flow/fair value hedging instruments, partially offset by an increase in accrued interest on MTNs.

As at 30 November 2013, approximately HK$576.9 million, or 29.9%, of our trade and other payables outstanding as at 30 September 2013 were paid.

The Directors have confirmed that we had no defaults with regard to the payment of trade and other payables during the Track Record Period.

Total Equity

Our total equity was HK$14,947.4 million, HK$13,694.5 million, HK$14,488.6 million and HK$14,026.4 million as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. Fluctuations in the amount of our total equity were primarily due to changes in the amount of reserves. Specifically, the decrease from 31 December 2010 to 31 December 2011 primarily reflected a loss attributable to a re-measurement of net defined benefit obligations as a result of a change in discount rates used in the actuarial valuation method (3.0% at the beginning of FY2011 to 1.5% at the end of FY2011 and further to 0.8% at the end of FY2012) by our independent actuaries. The decrease from 31 December 2012 to 30 September 2013 was primarily due to the fact that the 30 September 2013 figure only reflected nine months' results as opposed to a full year's result, partially offset by an increase in our other comprehensive income attributable to a re-measurement of net defined benefit obligations as a result of a change in discount rates used in the actuarial valuation method (1.5% at the beginning of FY2012 to 0.8% at the end of FY2012 and further to 2.3% at the end of 9M2013) by our independent actuaries.

Loan Capital

Loan capital represents an investment of funds received from PAH as a shareholder's investment in the form of an interest free loan and is accounted for as part of our equity. The balance of loan capital brought forward and carried forward was HK$8,845.0 million as at 31 December 2010, 2011 and 2012 and 30 September 2012 and 2013. As at 30 November 2013, being the latest practicable date for determining our indebtedness, the balance of loan capital brought forward and carried forward was HK$8,845.0 million. We intend to repay the Inter-company Loans, which includes the loan capital, in full on or before the fifth business day following the Listing Date using proceeds from the HEC Loan Facility. There is no restriction under the current Scheme of Control with regard to the repayment of loan capital.

INDEBTEDNESS

Bank Loans

The table below sets out our bank loans as at the dates indicated:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Bank loans				
Current portion	50.0	115.0	5,310.5	792.0
Non-current portion	4,994.0	4,996.2	—	1,500.0
Total bank loans	**5,044.0**	**5,111.2**	**5,310.5**	**2,292.0**

As at 31 December 2010, 2011 and 2012 and 30 September 2013, our total bank loans were HK$5,044.0 million, HK$5,111.2 million, HK$5,310.5 million and HK$2,292.0 million, respectively. The increase in the current portion of our bank loans from HK$50.0 million as at 31 December 2010 to HK$5,310.5 million as at 31 December 2012 was primarily due to a shifting of our non-current bank loans to current bank loans as they became due within one year's time as at 31 December 2012. To a lesser extent, the increase was also the result of an increase in current bank loans drawn to fund our acquisitions of fixed assets. Our bank loans decreased from HK$5,310.5 million as at 31 December 2012 to HK$2,292.0 million as at 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. During FY2010, FY2011, FY2012 and 9M2013, 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.

As at 30 November 2013, being the latest practicable date for determining our indebtedness, we did not have any outstanding bank loans. At the same time, we had total committed, undrawn bank facilities of HK$2,300 million with maturity dates ranging from 31 July 2015 to 3 August 2015. We have obtained the Company Loan Facility of approximately HK$8,700.0 million and the HEC Loan Facility of approximately HK$28,300.0 million. As at and from the Listing Date to 31 December 2014 (being the period covered by the 2014 Profit Forecast), we expect to have in place at least HK$500.0 million of committed and available banking facilities, which we can draw to fund our general working capital.

Immediately following the redemption of the Promissory Note, we expect our total outstanding borrowings to amount to HK$48,328.5 million. We expect to continue to rely on bank loans and other borrowings to fund a portion of our capital expenditures and other capital requirements in relation to the expansion of our business.

The table below sets out an aging analysis of our debt profile as at the dates indicated:

	As at 31 December						As at 30 September	
	2010		2011		2012		2013	
	Bank loans and bank overdrafts	MTNs	Bank loans and bank overdrafts	MTNs	Bank loans and bank overdrafts	MTNs	Bank loans and bank overdrafts	MTNs
	(HK$ in millions)							
Repayable within 1 year	51.7	—	115.0	501.8	5,316.4	—	798.0	—
Repayable after 1 year but within 2 years	—	520.6	4,996.2	—	—	499.8	1,500.0	999.6
Repayable after 2 years but within 5 years	4,994.0	998.9	—	1,897.9	—	1,698.0	—	1,198.7
Repayable after 5 years	—	6,023.1	—	8,263.5	—	8,971.5	—	9,320.3
Total debt profile	**5,045.7**	**7,542.6**	**5,111.2**	**10,663.3**	**5,316.4**	**11,169.3**	**2,298.0**	**11,518.6**

The following is a general summary of the material covenants and undertakings and material events of default of each of these loans:

- Borrowed Money (as defined below) may not exceed 2.5 times of our Adjusted Net Worth (as defined below) and secured borrowed money may not exceed our Adjusted Net Worth.

- Our Adjusted Tangible Net Worth (as defined below) may not be less than HK$8,000.0 million.

- Negative pledge: We may not create or have outstanding any encumbrance on or over our assets, except for (i) liens arising by operation of law or agreement in the ordinary course of our operations; (ii) any encumbrance existing at the time of acquisition of any asset after the date of the bank loans not created in contemplation of that acquisition, and any substitute encumbrance created on that asset in connection with the refinancing of the indebtedness secured on that asset; (iii) any encumbrance created on any asset acquired or developed by us after the date of the bank loan for the sole purpose of financing that acquisition or development; and (iv) any other encumbrance created or outstanding with the prior written consent of the lender, unless the relevant encumbrance is extended equally and ratably to the advance made and to all other sums payable by us under the relevant bank loan agreement.

- Cross default: An event of default will be considered to have occurred when any indebtedness in respect of Borrowed Money which has an aggregate outstanding principal amount of not less than 2% of our Adjusted Net Worth (i) is not paid when due, (ii) becomes due and payable before its normal maturity by reason of default or event of default or (iii) in the case of a contingent obligation or obligation as surety, such obligation or the indebtedness to which it relates becomes due and payable by reason of default or event of default and is not paid when due unless the same is being contested in good faith.

- An event of default will also be considered to have occurred if (i) we fail to perform or observe any of the terms and conditions of the Scheme of Control or there is any amendment thereto which the lender believes may materially and adversely affect the operation of the Scheme of Control; or (ii) the Scheme of Control is terminated, and the lender believes that such termination will materially prejudice our ability to meet our financial obligations.

For the purposes of the above summary:

- "**Borrowed Money**" means the aggregate of all of our borrowed money including contingent obligations for or in respect of the borrowed money and excluding Loan Capital (as defined below) and other interest free borrowed money from members of the Group.

- "**Adjusted Net Worth**" means the aggregate of (i) the amount paid up or credited as paid up on our issued share capital; (ii) the amounts standing to the credit of our reserves, including any such balance on our share premium account, revaluation reserve and retained profits or losses; and (iii) the outstanding principal amount of any interest free Loan Capital owed by us to PAH provided that (a) any such Loan Capital is stated in the then most recent accounts as representing a reinvestment of funds based on an accumulation of prior year profits and a long-term interest free capital loan, and (b) any such Loan Capital is not repayable without the prior agreement of the Hong Kong Government, has not been repaid and is treated as permanent shareholders' funds (the "**Loan Capital**"); all as shown by our latest balance sheet (being the latest audited balance sheet delivered to the lender or, until the first such balance sheet is so delivered, the audited balance sheet as at 31 December 2012).

- "**Adjusted Tangible Net Worth**" means Adjusted Net Worth (as defined above) less goodwill and other intangible assets.

Immediately following the redemption of the Promissory Note, our aggregate borrowing is expected to be approximately HK$48,328.5 million.

In preparation for the Reorganisation, a facility agreement dated 10 January 2014 (the "**HEC Loan Facility Agreement**") has been entered into between HEC and each of the participating banks set out therein, including Goldman Sachs Bank USA (an affiliate of Goldman Sachs (Asia) L.L.C.) and The Hongkong and Shanghai Banking Corporation Limited (an affiliate of HSBC Corporate Finance (Hong Kong) Limited), pursuant to which a dual currency term loan facility comprising a Hong Kong dollar tranche of up to approximately HK$16,521.1 million and a United States dollar tranche of up to approximately US$1,519.0 million (the "**HEC Loan Facility**") has been made available to HEC. On or before the fifth business day following the Listing Date, we intend to utilise the proceeds of the HEC Loan Facility of approximately HK$28,300.0 million in the following manner:

- approximately HK$27,445.3 million will be applied towards repayment in full of all amounts outstanding under the Inter-company Loans, comprising (i) HK$18,600.3 million outstanding under various loans and advances from PAH and (ii) HK$8,845.0 million of outstanding loan capital;

- approximately HK$600.0 million will be applied towards payment of capital expenditure incurred or expected to be incurred by HEC up to the Listing Date but unpaid as of such date; and

- approximately HK$254.7 million will be applied towards payment of a front end fee in respect of the HEC Loan Facility.

Further, in preparation for the Acquisition, a facility agreement dated 10 January 2014 (the "**Company Loan Facility Agreement**") has been entered into between the Company, HEC, and each of the participating banks set out therein, including Goldman Sachs Bank USA (an affiliate of Goldman Sachs (Asia) L.L.C.) and The Hongkong and Shanghai Banking Corporation Limited (an affiliate of HSBC Corporate Finance (Hong Kong) Limited), pursuant to which a dual currency term loan facility comprising a Hong Kong dollar tranche of up to approximately HK$5,078.9 million and a United States dollar tranche of up to approximately US$467.0 million (the "**Company Loan Facility**") has been made available to the Company. On or before the fifth business day following the Listing Date, we intend to utilise the proceeds of the Company Loan Facility of approximately HK$8,700.0 million in the following manner:

- approximately HK$8,502.6 million will be applied towards redemption of the Promissory Note to be issued by Treasure Business in favour of PAH in partial settlement of the Acquisition Consideration;

- approximately HK$109.1 million will be applied towards payment of various costs and expenses relating to the Global Offering which are to be borne by the Company;

- approximately HK$10.0 million will be applied towards funding working capital requirements of the Company and its subsidiaries; and

- approximately HK$78.3 million will be applied towards payment of a front end fee in respect of the Company Loan Facility.

Neither the HEC Loan Facility nor the Company Loan Facility are guaranteed by PAH. The Company Loan Facility is guaranteed by HEC. A summary of the key terms of the Loan Facilities is set out below:

- Facility amount:

  HEC Loan Facility: approximately HK$28,300.0 million
  Company Loan Facility: approximately HK$8,700.0 million

- Interest rate:

  Hong Kong dollar drawings: the sum of HIBOR and an interest margin (0.80% per annum)
  United States dollar drawings: the sum of LIBOR and an interest margin (0.80% per annum)

- Maturity date: in the case of each of the Loan Facilities, three years from the date of the first drawdown

The HEC Loan Facility includes the following material events of default:

- Consolidated Borrowed Money (as defined below) to Consolidated Adjusted Net Worth (as defined below) is more than 2.5 times;

- Consolidated Borrowed Money to Consolidated EBITDA (as defined below) (on a rolling twelve-month basis) is equal to or more than 7.0 times;

- Consolidated Adjusted Net Worth is less than or equal to HK$20,000.0 million; and

- An event of default will also be considered to have occurred if (i) HEC fails to perform or observe any of the terms and conditions of the Scheme of Control or there is any amendment thereto which a majority of the lenders reasonably believe may adversely affect to a material extent the continued operation or existence of the Scheme of Control; or (ii) the Scheme of Control is terminated, and a majority of the lenders reasonably believe that such failure or amendment or termination will materially prejudice HEC's ability to meet its financial obligations, provided that such event in (i) or (ii) is materially prejudicial to the interests of the lenders.

The Company Loan Facility includes the following material events of default:

- Consolidated Borrowed Money (as defined below) to Consolidated Adjusted Net Worth (as defined below) is more than 2.5 times;

- Consolidated Borrowed Money to Consolidated EBITDA (as defined below) (on a rolling twelve-month basis) is equal to or more than 7.0 times;

- Consolidated Adjusted Net Worth is less than or equal to HK$20,000.0 million; and

- An event of default will also be considered to have occurred if (i) HEC fails to perform or observe any of the terms and conditions of the Scheme of Control or there is any amendment thereto which a majority of the lenders reasonably believe may adversely affect to a material extent the continued operation or existence of the Scheme of Control; or (ii) the Scheme of Control is terminated, and a majority of the lenders reasonably believe that such failure or amendment or termination will materially prejudice the Company's or HEC's ability to meet its financial obligations, provided that such event in (i) or (ii) is materially prejudicial to the interests of the lenders.

For the purposes of the above material events of default:

- "**Consolidated Adjusted Net Worth**" means the aggregate of (i) the amount paid up or credited as paid up on the issued share capital (including ordinary shares and preference shares) of the Company and (ii) the amounts standing to the credit of the Company's reserves (including, but not limited, to any such balance on the share premium account, revaluation reserve and retained profits or losses) all as shown by the full-year or half-year balance sheet, but where a test is conducted by reference to any audited accounts and the auditors' report thereon is in any way qualified, there shall be deducted from the aggregate as aforesaid the amount which such auditors certify to be the difference between the actual amount shown in such latest balance sheet and the amount which such auditors consider, in their opinion, to present a true and fair view of the relevant entry in such latest balance sheet;

- "**Consolidated Borrowed Money**" means the aggregate of borrowed money of each member of the Group (but excluding for this purpose borrowed money from other members of the Group) and including (for the avoidance of doubt) contingent obligations for or in respect of borrowed money; and

- "**Consolidated EBITDA**" means in respect of any date, the consolidated profits of the Company before taxation for the 12 month period ending on such date but before (i) deducting interest and finance charges, (ii) deducting any amount attributable to the amortisation, revaluation, write down or impairment of intangible assets or the depreciation of tangible assets, (iii) taking into account any items treated as exceptional or extraordinary and any other non-recurring items, (iv) taking into account any unrealised exchange gains and losses including those arising on translation of currency debt and (v) taking into account any gain or loss arising from an upward or downward revaluation of any asset, in each case, to the extent added, deducted or taken into account, as the case may be.

Each of the Loan Facilities will be repayable upon its final maturity. We intend to refinance or renew the Loan Facilities on maturity or earlier through sources that we deem appropriate at such time. We will continue to analyse which sources of capital are most advantageous to us at any particular time.

It is our intention to reduce our exposure to interest rate risks under the Loan Facilities by entering into hedging arrangements to convert substantially all of our floating rate obligations into fixed rate obligations. We will take into account all factors and other considerations we consider relevant, including prevailing market conditions, in order that these hedging arrangements will be implemented on such terms and timing which are in our best interests.

Medium Term Notes

The MTNs are bearer or registered notes at fixed interest rates issued under a US$1,000.0 million MTN programme established by our subsidiary, HEFL, on 18 December 2002 with various financial institutions. The programme size increased to US$3,000.0 million on 9 December 2011. The MTNs are unconditionally and irrevocably guaranteed by us and are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of HEFL at any time in the event of certain changes affecting taxes in the British Virgin Islands or Hong Kong. As at 31 December 2010, 2011 and 2012 and 30 September 2013, the nominal value of the MTNs was HK$7,689.3 million, HK$10,346.7 million, HK$10,622.5 million and HK$11,328.5 million, respectively. As at 30 November 2013, being the latest practicable date for determining our indebtedness, the nominal value of the MTNs was HK$11,328.5 million. For further information regarding the MTNs, see note 19 of Section B of *"Appendix I — Accountants' Report"*.

The following is a general summary of the material terms and conditions of MTNs issued under our MTN programme:

Interest Rates and Maturity Dates

Pursuant to the MTNs, interest on certain portions of the MTNs is payable at fixed rates, with other portions being payable at a floating rates. For a breakdown of the details of the MTNs, including the fixed or floating rates at which they are payable and the maturity dates, please see note 19 of Section B of *"Appendix I — Accountants' Report"*. For details regarding the interest rates of the MTNs after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments, see note 29 of Section B of *"Appendix I — Accountants' Report"*.

Negative Pledge

Under the MTNs, neither we nor HEFL may create any security interest upon any part of our respective businesses to secure any indebtedness or guarantee of, or indemnity in respect of, any indebtedness, unless it can be ensured that HEFL's obligations under the MTNs or our obligations under the guarantee (i) are secured by the security interest equally with the indebtedness or benefit or indemnity in substantially identical terms or (ii) have the benefit of such other security interests or arrangements as shall be approved by a resolution of the holders of MTNs. Subject to certain conditions specified in the MTNs, we and HEFL may create or have outstanding a security interest without the obligation to provide any arrangement in respect of the MTNs.

Events of Default

The MTNs contain certain events of default. Such events include, but are not limited to, (i) breach of any other obligations under the MTNs; (ii) cross-default or failure to make required payments in an amount which equals or exceeds US$30.0 million or its equivalent; (iii) enforcement proceedings, including a distress, attachment, execution or other legal process against all or a material part of the property, assets or revenues of HEFL or us; (iv) the enforcement of a security in respect of the whole or any material part of the business, undertaking, assets and revenues of HEFL; and (v) a change in ownership of HEFL.

Loan from Ultimate Holding Company

The table below sets out a breakdown of our loan from our ultimate holding company for the periods indicated:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Loan from ultimate holding company	13,190.2	11,533.5	10,723.7	13,265.9

As at 31 December 2010, 2011 and 2012 and 30 September 2013, our loan from our ultimate holding company was HK$13,190.2 million, HK$11,533.5 million, HK$10,723.7 million and HK$13,265.9 million, respectively. The decreases from 2010 to 2012 were primarily due to repayments made at the end of each year. The increase in borrowings from 31 December 2012 to 30 September 2013 was primarily the net result of our centralised cash fund management, under which we increased our borrowings in the form of a loan from our ultimate holding company, PAH, for purposes of funding our daily operations and capital expenditure, and our transactions with PAH (as set out in note 33 of the Accountants' Report in *"Appendix I — Accountants' Report"*), which allow us to take advantage of certain cost benefits. The loan from our ultimate holding company is unsecured, interest-free and has no fixed terms of repayment. As at 31 December 2010, 2011 and 2012 and 30 September 2013, the loan from our ultimate holding company was not expected to be repaid within 12 months and therefore such loan was recorded as a non-current liability. However, if the Listing proceeds as anticipated, the loan from our ultimate holding company is expected to be repaid on or before the fifth business day following the Listing Date. As at 30 November 2013, being the latest practicable date for determining our indebtedness, we had an outstanding loan from our ultimate holding company of HK$17,719.6 million. We expect to repay the Inter-company Loans on or before the fifth business day following the Listing Date, using the proceeds from the HEC Loan Facility.

The Directors confirm that there has been no material change in our indebtedness position since 30 September 2013 and that there have been no defaults with regard to bank loans and/or breaches of financial covenants during the Track Record Period.

CAPITAL EXPENDITURES AND COMMITMENTS AND CONTINGENT LIABILITIES

Capital Expenditures

For FY2010, FY2011, FY2012 and 9M2013, our capital expenditures were HK$2,426.8 million, HK$2,886.9 million, HK$2,612.9 million and HK$1,192.7 million, respectively. Our capital expenditures consisted of investments in fixed assets, primarily for the retrofitting of emission control facilities, increasing the gas-fired generation capacity, station building and plant facilities improvement (including upgrading steam turbines, constructing new service buildings and installing a 1 MW TFPV system at Lamma Power Station), the replacement of overhead lines with underground cable circuits, the installation of cable circuits and equipment for electricity connection to new MTR lines, general transmission and distribution system expansion and other projects for improving supply reliability. We financed our capital expenditures mainly through a combination of cash from operations, bank loans and other borrowings, a loan from our ultimate holding company, loan capital, proceeds from our MTNs and other liabilities.

The 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). Upon Listing, we plan to finance our capital expenditures through cash from our operating activities, bank loans and/or other debt markets fund raising activities. See *"Scheme of Control and Regulatory Overview — Scheme of Control — Development Plan — 2014-2018 Development Plan"* for further information.

Capital Commitments

The following table sets out our capital commitments as at the dates indicated:

	As at 31 December			As at 30 September
	2010	2011	2012	2013
	(HK$ in millions)			
Capital commitments for fixed assets authorised and contracted for	1,576.3	1,564.7	1,125.4	1,060.2
Capital commitments for fixed assets authorised but not contracted for	9,373.4	9,348.3	8,763.8	7,884.2
Total capital commitments for fixed assets	**10,949.7**	**10,913.0**	**9,889.2**	**8,944.4**

As at 31 December 2010, 2011 and 2012 and 30 September 2013, our total capital commitments for fixed assets were HK$10,949.7 million, HK$10,913.0 million, HK$9,889.2 million and HK$8,944.4 million, respectively. During the Track Record Period, our capital commitments for fixed assets primarily consisted of the installation of submarine cable circuits at various locations, the construction of transformers, the development of an additional transmission system for the Lamma Power Station, equipment in connection with supplying electricity for the construction of the MTR West Island and South Island lines and the extension of our generation and maintenance facilities on Lamma Island.

Contingent Liabilities

Except as disclosed above or as otherwise disclosed herein, we did not have outstanding at the close of business on 30 September 2013 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. The Directors confirm that there has been no material change in our commitments and contingent liabilities since 30 September 2013.

KEY FINANCIAL RATIOS

The following table lays out our key financial ratios for the periods indicated:

	For the year ended and as at 31 December			For the nine months ended and as at 30 September	
	2010	2011	2012	2012	2013
Current ratio(1)	136.7%	95.7%	39.3%	42.1%	73.3%
Gearing ratio(2)	24.6%	29.9%	30.9%	31.6%	26.4%
Net debt-to-net assets ratio(3)	84.2%	115.0%	113.7%	126.4%	98.4%
Net debt-to-total assets ratio(4)	24.6%	29.8%	30.9%	31.5%	26.4%
Return on assets(5)	9.0%	8.5%	8.5%	N/A	N/A
Return on equity(6)	30.9%	32.7%	31.3%	N/A	N/A

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities and multiplying the result by 100%.

(2) Gearing ratio is calculated by dividing total interest-bearing borrowings by total assets and multiplying the result by 100%. Total interest-bearing borrowings represents interest-bearing borrowings, which comprise bank loans, MTNs and unsecured bank overdrafts.

(3) Net debt-to-net assets ratio is calculated by dividing net debt by net assets and multiplying the result by 100%. Net debt represents our interest-bearing borrowings less cash and bank balances, with interest-bearing borrowings comprising bank loans, MTNs and unsecured bank overdrafts.

(4) Net debt-to-total assets ratio is calculated by dividing net debt by total assets and multiplying the result by 100%.

(5) Return on assets is calculated by dividing profit attributable to the equity shareholders of HEC for the year by total assets and multiplying the result by 100%.

(6) Return on equity is calculated by dividing profit attributable to the equity shareholders of HEC for the year by total equity and multiplying the result by 100%. Total equity comprises share capital, reserves and loan capital.

Current Ratio

Our current ratio was 136.7%, 95.7%, 39.3%, 42.1% and 73.3% as at 31 December 2010, 2011 and 2012 and 30 September 2012 and 2013, respectively. Our current ratio decreased from 136.7% as at 31 December 2010 to 95.7% as at 31 December 2011, primarily due to an increase in total current liabilities as a result of an increase in trade and other payables and the current portion of our MTNs in accordance with their repayment schedules. Our current ratio decreased from 95.7% as at 31 December 2011 to 39.3% as at 31 December 2012, primarily due to an increase in the current portion of our bank loans. This increase was primarily a result of the shifting of our non-current loans to current loans and, to a lesser extent, the increase in current bank loans drawn to fund our acquisitions of fixed assets. Our current ratio increased from 42.1% as at 30 September 2012 to 73.3% as at 30 September 2013, primarily due to a decrease in the current portion of our bank loans.

Gearing Ratio

Our gearing ratio was 24.6%, 29.9%, 30.9%, 31.6% and 26.4% as at 31 December 2010, 2011 and 2012 and 30 September 2012 and 2013, respectively. Our gearing ratio increased from 24.6% as at 31 December 2010 to 29.9% as at 31 December 2011, primarily reflecting an increase in the amount of MTNs issued. Our gearing ratio remained relatively stable at 29.9% as at 31 December 2011 and 30.9% as at 31 December 2012. Our gearing ratio decreased from 31.6% as at 30 September 2012 to 26.4% as at 30 September 2013, primarily due to a decrease in our outstanding bank loans.

Net Debt-to-Net Assets Ratio

Our net debt-to-net assets ratio was 84.2%, 115.0%, 113.7%, 126.4% and 98.4% as at 31 December 2010, 2011 and 2012 and 30 September 2012 and 2013, respectively. Our net debt-to-net assets ratio increased from 84.2% as at 31 December 2010 to 115.0% as at 31 December 2011, primarily due to an increase in net debt resulting from an increase in the amount of MTNs issued. Our net-debt-to-net assets ratio remained relatively stable at 115.0% as at 31 December 2011 and 113.7% as at 31 December 2012. Our net debt-to-net assets ratio decreased from 126.4% as at 30 September 2012 to 98.4% as at 30 September 2013, primarily due to the decrease in our outstanding bank loans.

Net Debt-to-Total Assets Ratio

Our net debt-to-total assets ratio was 24.6%, 29.8%, 30.9%, 31.5% and 26.4% as at 31 December 2010, 2011 and 2012 and 30 September 2012 and 2013, respectively. Our net debt-to-total assets ratio increased from 24.6% as at 31 December 2010 to 29.8% as at 31 December 2011, primarily due to an increase in the amount of MTNs issued. Our net debt-to-total assets ratio remained relatively stable at 29.8% as at 31 December 2011 and 30.9% as at 31 December 2012. Our net debt-to-total assets ratio decreased from 31.5% as at 30 September 2012 to 26.4% as at 30 September 2013, primarily due to a decrease in our outstanding bank loans.

Return on Assets

Our return on assets was 9.0%, 8.5% and 8.5% for FY2010, FY2011 and FY2012, respectively. Our return on assets decreased from 9.0% for FY2010 to 8.5% for FY2011, primarily due to a decrease in our profit attributable to the equity shareholders of HEC and an increase in our total assets. Our return on assets remained stable at 8.5% for FY2011 and FY2012.

Return on Equity

Our return on equity was 30.9%, 32.7% and 31.3% for FY2010, FY2011 and FY2012, respectively. Our return on equity increased from 30.9% for FY2010 to 32.7% for FY2011, primarily due to a decrease in total equity, coupled with a slight decrease in profit attributable to the equity shareholders of HEC. Our return on equity decreased from 32.7% for FY2011 to 31.3% for FY2012, primarily due to an increase in total equity, coupled with a slight increase in profit attributable to the equity shareholders of HEC.

OFF BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as at 30 September 2013 and as at the date of this prospectus.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to credit, liquidity, interest rate and currency risks in the normal course of our business. In accordance with our treasury policy, derivative financial instruments are only used to hedge our exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Credit Risk Management

Our credit risk is primarily attributable to trade and other receivables relating to electricity customers, bank deposits and over-the-counter derivative financial instruments entered into for hedging purposes. We have a credit policy in place and our exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, we obtain collateral in the form of security deposits or bank guarantees from customers in accordance with our supply rules. As at 31 December 2010, 2011 and 2012 and 30 September 2013, the security deposits held by us totalled HK$1,747.6 million, HK$1,801.4 million, HK$1,839.0 million and HK$1,880.9 million, respectively.

We have a defined minimum credit rating requirement and transaction limit for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. We do not expect any counterparty to fail to meet its obligations. Our maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, on our balance sheet.

Liquidity Risk

During the Track Record Period, we operated a central cash management system in order to achieve better control of risk and minimise the costs of funds. Upon Listing, we will handle our cash fund management independently. We aim to ensure that we will have sufficient access to liquidity as and when the need arises by establishing committed banking facilities. Our policy is to regularly monitor current and expected liquidity requirements and our compliance with loan covenants to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding to meet our liquidity requirements in the short and longer term. As at 31 December 2010, 2011 and 2012 and 30 September 2013, we had undrawn committed bank facilities of HK$6,500.0 million, HK$6,500.0 million, HK$5,540.0 million and HK$3,770.0 million respectively.

The following table sets out the remaining contractual maturities as at 30 September 2013 of our non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 30 September 2013) and the earliest date we could be required to pay.

	As at 30 September 2013					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	(HK$ in millions)					
MTNs plus accrued interest	11,619.5	14,932.6	448.8	1,428.0	2,347.6	10,708.2
Bank loans plus accrued interest	2,293.1	2,330.7	813.4	1,517.3	—	—
Bank overdrafts	6.0	6.0	6.0	—	—	—
Creditors and accrued charges	1,824.0	1,824.0	1,824.0	—	—	—
Cross currency swaps and related interest accruals	(369.3)					
- outflow		848.1	117.0	117.0	351.3	262.8
- inflow	—	(1,853.7)	(247.2)	(247.2)	(741.5)	(617.9)
	15,373.4	18,087.7	2,962.1	2,815.2	1,957.4	10,353.1
Derivatives settled gross						
Forward foreign exchange contracts held as cash flow hedging instruments	(1.4)					
- outflow		4,214.8	3,157.5	1,057.2	—	—
- inflow		(4,216.8)	(3,159.2)	(1,057.6)	—	—
Other forward foreign exchange contracts	(0.04)					
- outflow		181.6	181.6	—	—	—
- inflow		(181.6)	(181.6)	—	—	—

For further information regarding the remaining contractual maturities of our non-derivative financial liabilities and derivative financial liabilities, see note 29(b) of Section B of *"Appendix I — Accountants' Report"*.

Interest Rate Risk

We are exposed to cash flow interest rate risk on our interest-bearing assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Hedging

Our policy is to maintain a balanced combination of fixed and variable rate debt to reduce our interest rate exposure. We also use cross currency swaps and interest rate swaps to manage our exposure in accordance with our treasury policy. For further information regarding our hedging policy, see *"— Hedging Policy"* below.

We classify cross currency swaps and interest rate swaps as cash flow or fair value hedges and state them at fair value in accordance with the policy set out in note 1(q) of *"Appendix I — Accountants' Report"*.

Interest Rate Profile

Our net fixed rate liabilities, which primarily consisted of MTNs and bank loans, were HK$4,305.9 million, HK$5,766.1 million, HK$6,308.8 million and HK$7,005.1 million as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. Our net variable rate liabilities, which primarily consisted of bank loans, MTNs and customers' deposits, were HK$10,021.2 million, HK$11,785.9 million, HK$12,008.2 million and HK$8,684.5 million as at the same periods, respectively. For further information regarding the interest rate profile of our net interest-bearing assets and liabilities as at the balance sheet date, after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments, see note 29(c)(ii) of Section B of *"Appendix I — Accountants' Report"*.

Sensitivity Analysis

It is estimated that, as at 31 December 2010, 2011 and 2012 and 30 September 2013, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased our profit after taxation and revenue reserve by approximately HK$67.2 million, HK$82.6 million, HK$80.2 million and HK$60.7 million, respectively. As at the same periods, other components of equity would have increased/decreased by approximately HK$4.2 million, HK$1.7 million, HK$1.0 million and HK$0.3 million, respectively, in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date.

Currency Risk

Committed and Forecast Transactions

We are exposed to currency risk primarily through purchases that are denominated in a currency other than our functional currency. The currencies giving rise to this risk are primarily United States Dollars, Japanese Yen, Pounds Sterling and Euros.

We use forward foreign exchange contracts to manage our currency risk and classify these as cash flow hedges. As at 31 December 2010, 2011 and 2012 and 30 September 2013, we had forward foreign exchange contracts hedging committed and forecast transactions with a net fair value of HK$27.1 million (asset), HK$7.0 million (asset), HK$6.4 million (liability) and HK$1.4 million (asset), respectively, recognised as derivative financial instruments.

Recognised Assets and Liabilities

The net fair value of forward foreign exchange contracts used by us as economic hedges of monetary assets and liabilities in foreign currencies as at 31 December 2010, 2011 and 2012 and 30 September 2013 was HK$18.2 million (asset), HK$3.6 million (asset), HK$3.5 million (liability) and HK$0.04 million (asset), respectively, recognised as derivative financial instruments.

Our borrowings are either hedged into Hong Kong dollars by way of cross currency swaps or are denominated in Hong Kong dollars. In light of the foregoing, our management does not expect that there will be any significant currency risk associated with our borrowings.

Exposure to Currency Risk

For further information regarding our exposure as at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than our functional currency, see note 29(d)(iii) of Section B of *"Appendix I — Accountants' Report"*:

Sensitivity Analysis

The following table indicates that a 10% strengthening of the following currencies against Hong Kong dollars as at the relevant balance sheet date would have increased/decreased our profit after taxation (and revenue reserve) and other components of equity as follows:

	As at 31 December						As at 30 September	
	2010		2011		2012		2013	
	Effect on profit after taxation and revenue reserve	Effect on other components of equity	Effect on profit after taxation and revenue reserve	Effect on other components of equity	Effect on profit after taxation and revenue reserve	Effect on other components of equity	Effect on profit after taxation and revenue reserve	Effect on other components of equity
	(HK$ in millions)							
Japanese yen	0.01	23.1	0.3	18.5	(0.9)	6.0	(0.7)	5.2
Euros	—	—	(0.01)	1.0	(0.1)	—	(0.2)	—
Pounds Sterling	(0.08)	1.6	(0.7)	1.0	(0.03)	0.3	(0.2)	—

A 10% weakening in the above currencies against Hong Kong dollars as at the balance sheet date would have had an equal but opposite effect on our profit after taxation (and revenue reserve) and other components of equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose us to currency risk as at the balance sheet date, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

HEDGING POLICY

Our currency and interest rate risks are actively managed in accordance with our hedging policy as outlined in our treasury policy. Our hedging policy has been approved by the Board and aims to (i) mitigate the potential for financial loss arising through unfavourable movements in foreign currency exchange rates; (ii) control interest rate exposure by maintaining an appropriate mix of fixed versus floating rates in our debt portfolio; (iii) ensure that there are sufficient committed funding sources available to meet both our short-term and long-term payment obligations and funding needs as they arise; and (iv) minimise financial loss through the default of a counterparty.

We use derivative financial instruments primarily for managing foreign currency and interest rate risks and not for speculative purposes. Our treasury transactions are only executed with counterparties with acceptable credit ratings in order to control counterparty risk exposure. Our principal foreign currency exposure arises from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. We maintain a prudent and cost effective interest rate structure for our debt through a mix of fixed rate and floating rate borrowings and by utilising interest rate derivatives.

The internal control procedures with respect to our hedging arrangements are as follows: derivative financial instruments are executed and regularly monitored by our treasury team (which is overseen by our treasurer) and approved by an Executive Director. After we enter into the derivative financial instruments, our accounting department also reviews and records the relevant transaction. Our treasurer has over 20 years of experience dealing with and managing complex hedging and derivative related financial activities. When considering whether or not to enter into derivative financial instruments, our treasury team considers such factors as the purpose of the instrument and cost efficiency.

The financial instruments entered into for hedging during the Track Record Period were considered effective and we conduct hedging effectiveness assessments on a regular basis. The following tables set out the fair value and notional amount of our cross currency swaps, interest rate swaps and forward foreign exchange contracts as at the dates indicated:

	As at 31 December 2010	
	Fair value	**Notional amount**
	(HK$ in millions)	
Cross currency swaps	(122.4)	3,882.3
Interest rate swaps	11.3	750.0
Forward foreign exchange contracts	45.3	2,618.3

	As at 31 December 2011	
	Fair value	**Notional amount**
	(HK$ in millions)	
Cross currency swaps	422.5	5,826.0
Interest rate swaps	1.4	750.0
Forward foreign exchange contracts	10.6	3,454.8

	As at 31 December 2012	
	Fair value	**Notional amount**
	(HK$ in millions)	
Cross currency swaps	645.4	5,826.0
Interest rate swaps	—	—
Forward foreign exchange contracts	(9.9)	5,916.1

	As at 30 September 2013	
	Fair value	Notional amount
	(HK$ in millions)	
Cross currency swaps	299.6	5,826.0
Interest rate swaps	—	—
Forward foreign exchange contracts	1.4	4,539.7

The following tables set out the duration of our cross currency swaps, interest rate swaps and forward foreign exchange contracts as at the dates indicated:

	As at 31 December 2010			
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	(HK$ in millions)			
Cross currency swaps	—	—	—	3,882.3
Interest rate swaps	—	750.0	—	—
Forward foreign exchange contracts	2,548.4	69.9	—	—

	As at 31 December 2011			
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	(HK$ in millions)			
Cross currency swaps	—	—	—	5,826.0
Interest rate swaps	750.0	—	—	—
Forward foreign exchange contracts	3,389.0	65.8	—	—

	As at 31 December 2012			
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	(HK$ in millions)			
Cross currency swaps	—	—	—	5,826.0
Interest rate swaps	—	—	—	—
Forward foreign exchange contracts	3,673.1	2,243.0	—	—

	As at 30 September 2013			
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	(HK$ in millions)			
Cross currency swaps	—	—	—	5,826.0
Interest rate swaps	—	—	—	—
Forward foreign exchange contracts	3,482.5	1,057.2	—	—

Our key hedging contracts are governed by either International Swaps and Derivatives Association ("**ISDA**") master agreements entered into at various times and with different banks or the general terms and conditions of the banks themselves relating to hedging transactions. The following is a general summary of the key events of default and termination events governing the key hedging contracts entered into by us during the Track Record Period and up to the Latest Practicable Date:

- Default under specified transactions: An event of default will be considered to have occurred should defaults of the Group, disaffirmations, repudiations or rejections with regard to certain specific transactions as defined in the ISDA master agreements occur.

- Cross default: An event of default will be considered to have occurred if (i) a default of the Group, event of default of the Group or other similar condition or event under one or more agreements or instruments relating to any obligation in respect of borrowed money has occurred where the aggregate principal amount is not less than an applicable threshold amount specified in the ISDA master agreements and which has resulted in such indebtedness becoming, or becoming capable at such time of being declared, due and payable before it would otherwise have been; or (ii) a default of the Group in making one or more payments on the due date for payment in an aggregate amount, either alone or together with the amount, if any, referred to in clause (i) above, of not less than the applicable threshold amount stated in the ISDA master agreements has occurred.

- Termination events: Termination events include illegality, force majeure events, various tax events, including a tax event upon merger, and a credit event upon merger, all of which are outlined in the ISDA master agreements.

DIVIDEND POLICY

During FY2010, FY2011, FY2012, 9M2012 and 9M2013, dividends of HK$5,519.1 million, HK$5,005.7 million, HK$3,760.9 million, HK$3,760.9 million and HK$4,615.6 million, respectively, were paid by HEC to PAH. See *"Distributions"* for further details on the distribution policy of HK Electric Investments and the Company following the Listing. Interim dividends of HK$4,865.2 million were declared by HEC to PAH in respect of profit attributable to the equity shareholders of HEC from 1 January 2013 to 30 November 2013. To the extent that they are not paid to PAH before completion of the Acquisition, dividends so declared shall form part of the Inter-company Loans and are expected to be settled by HEC on or before the fifth business day following the Listing Date.

After the consolidated financial statements of the Operating Group for FY2013 and for the period from 1 January 2014 up to the Completion Date have been prepared and audited to determine the profit for such periods, Treasure Business will procure that a further interim dividend in respect of the remaining part of such profit up to the Completion Date is declared by HEC to Treasure Business and Treasure Business will then pay to PAH the same amount by no later than 30 April 2014. The amount of such further interim dividend will be determined solely based on the audited profit attributable to the equity shareholders of HEC for the period up to the Completion Date and should not be considered in the context of the 2014 Profit Forecast, which represents the forecast profit of the Trust Group for the period from the Listing Date to 31 December 2014 and takes into account increases in interest charges and depreciation and amortisation charges and is therefore not capable of being extrapolated for comparison (see *"2013 Profit Estimate and 2014 Profit Forecast"* for information regarding the 2014 Profit Forecast). Furthermore, 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. See *"Risk Factors — Risks Relating to Our 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"*. The payment of such further interim dividend will be funded from cash generated from the operations of HEC. The Company will publicly disclose the amount of such further interim dividend in respect of profit attributable to the equity shareholders of HEC in an announcement.

MATERIAL RELATED PARTY TRANSACTIONS

We had the following material transactions with related parties during the Track Record Period:

Key management personnel compensation

Our total short-term employee benefits and post-employment benefits provided were HK$24.6 million, HK$23.3 million, HK$24.1 million and HK$13.8 million for FY2010, FY2011, FY2012 and 9M2013, respectively. There was no outstanding amount due from key management personnel as at 31 December 2010, 2011 and 2012 and 30 September 2013.

Ultimate Holding Company

Our other operating costs include costs recharged by PAH to us for management and administrative support which amounted to HK$126.0 million, HK$104.9 million, HK$112.4 million and HK$95.1 million for FY2010, FY2011, FY2012 and 9M2013, respectively. The Directors have confirmed that the above transactions will cease after the Listing.

During FY2010, FY2011, FY2012, 9M2012 and 9M2013, the aggregate amounts of fees paid by us to Guangdong Dapeng and CNOOC Gas in discharge of obligations owing by PAH for the purchase of natural gas from Guangdong Dapeng and CNOOC Gas pursuant to the Dapeng Gas Supply Contract and the CNOOC Gas Supply Contract and on-sold to us at cost were approximately HK$2,211.2 million, HK$2,624.5 million, HK$2,929.6 million, HK$2,129.1 million and HK$2,045.3 million, respectively. The amounts paid were based on gas prices which were determined based on the gas price formula under the Dapeng Gas Supply Contract and the CNOOC Gas Supply Contract. With effect from 8 December 2013, the CNOOC Gas Supply Contract was novated by PAH to HEC pursuant to the novation deed entered into between PAH, HEC and CNOOC Gas dated 22 November 2013. As a result, the Group will purchase natural gas from CNOOC Gas directly pursuant to the CNOOC Gas Supply Contract. It is the intention of PAH and us that, once the consent of Guangdong Dapeng is obtained and the novation deed between PAH, the Group and Guangdong Dapeng becomes effective, the Dapeng Gas Supply Contract will be novated by PAH to the Group. For further details, see *"Connected Transactions — Non-exempt Continuing Connected Transactions — On-sale of Gas from PAH to HEC"*.

Subsidiary

Loans from a subsidiary represent amounts borrowed under the MTN programme through HEFL. Interest expenses paid/payable in respect of the MTN programme were HK$148.9 million, HK$415.3 million, HK$416.5 million, HK$309.8 million and HK$330.9 million for FY2010, FY2011, FY2012, 9M2012 and 9M2013, respectively. For further details, see note 20 of Section B of *"Appendix I — Accountants' Report"*.

The Directors are of the view that all of our material related party transactions were conducted on an arm's length basis and do not distort our results for the Track Record Period or make such results not reflective of our future performance.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Except as disclosed in *"— Indebtedness"* above, we confirm that, as at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, having performed reasonable due diligence on the Trust Group and taking into account the results of the Trust Group for the period from 30 September 2013 to 31 December 2013, there has been no material adverse change in the Trust Group's financial or trading position or prospects since 30 September 2013, which is the end of the period covered by the Accountants' Report as set out in *"Appendix I — Accountants' Report"*, up to the date of this prospectus.

LISTING EXPENSES

Total expenses (excluding underwriting commissions and any incentive fees) expected to be incurred in relation to the Listing are HK$109.1 million, of which approximately HK$18.0 million is expected to be charged to the consolidated statement of profit or loss of the Trust Group and approximately HK$91.1 million is expected to be charged to equity of the Trust Group in FY2014. The Company and the Trustee-Manager incurred insignificant expenses relating to the Listing during the Track Record Period.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

See *"Appendix II — Unaudited Pro Forma Financial Information"* for details, particularly relating to the Acquisition and Reorganisation.

SCHEME OF CONTROL

The following table presents the summary financial information for HEC as extracted from the Scheme of Control financial statements for the years indicated. The Scheme of Control financial statements were prepared in accordance with the provisions of the Scheme of Control. The Scheme of Control financial statements for FY2009 to FY2012 were audited by an independent auditor in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants as required by the Scheme of Control. Certain agreed upon procedures were conducted on the Scheme of Control financial information for FY2003 to FY2008 by an independent auditor. While the Scheme of Control financial information does not form part of the Accountants' Report as set out in *"Appendix I — Accountants' Report"*, such financial information is discussed below as we believe such information will be helpful to investors. The Scheme of Control financial information may differ from the financial information contained in the Accountants' Report as set out in *"Appendix I — Accountants' Report"*. While we have not reconciled the Scheme of Control financial information with the consolidated financial information of the Group, we believe that any differences are not material.

The following table shows the Scheme of Control financial information for the years indicated:

	FY2012	FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003
					(HK$ in millions)					
Sales of electricity	10,364	10,140	10,338	10,331	12,704	12,452	12,326	12,310	11,442	11,263
Transfer from/(to) Fuel Clause Recovery Account	3,867	3,755	2,794	2,329	1,802	413	15	119	(443)	(726)
Other Scheme of Control revenue	74	100	62	63	36	455	42	56	51	66
Gross Tariff Revenue	14,305	13,995	13,194	12,723	14,542	13,320	12,383	12,485	11,050	10,603
Fuel costs	(5,673)	(5,538)	(4,570)	(4,104)	(3,597)	(2,167)	(1,780)	(1,887)	(1,301)	(983)
Operating costs	(1,040)	(1,040)	(1,097)	(1,158)	(1,283)	(1,260)	(1,155)	(1,190)	(1,105)	(918)
Interest	(264)	(248)	(112)	(91)	(166)	(369)	(186)	(128)	(83)	(195)
Depreciation and amortisation	(1,919)	(1,836)	(1,793)	(1,623)	(1,516)	(2,025)	(1,892)	(1,832)	(1,810)	(1,782)
Profit on disposal of fixed assets	—	—	—	—	—	—	—	—	—	317
Net revenue before taxation	5,409	5,333	5,622	5,747	7,980	7,499	7,370	7,448	6,751	7,042
Scheme of Control taxation	(856)	(794)	(930)	(1,025)	(1,218)	(1,331)	(1,453)	(1,314)	(1,167)	(1,193)
Net revenue after taxation	4,553	4,539	4,692	4,722	6,762	6,168	5,917	6,134	5,584	5,849
Interest on borrowed capital	271	239	118	103	154	307	285	181	128	218
Interest on incremental customers' deposits	—	—	—	—	1	9	9	3	—	—
Scheme of Control net revenue	4,824	4,778	4,810	4,825	6,917	6,484	6,211	6,318	5,712	6,067
Transfer from/(to) Tariff Stabilisation Fund	72	46	(58)	(174)	(297)	(14)	—	—	—	139
Shortfall in Tariff Stabilisation Fund	—	—	—	—	—	—	487	288	869	228
Permitted Return	4,896	4,824	4,752	4,651	6,620	6,470	6,698	6,606	6,581	6,434
Shortfall in Tariff Stabilisation Fund	—	—	—	—	—	—	(487)	(288)	(869)	(228)
Interest on borrowed capital	(271)	(239)	(118)	(103)	(154)	(307)	(285)	(181)	(128)	(218)
Interest on incremental customers' deposits	—	—	—	—	(1)	(9)	(9)	(3)	—	—
Transfer to Rate Reduction Reserve	(1)	(1)	(1)	—	(13)	(1)	—	—	—	(6)
Net Return	4,624	4,584	4,633	4,548	6,452	6,153	5,917	6,134	5,584	5,982

Gross Tariff Revenue

Our Gross Tariff Revenue primarily represents (i) the total revenue from sales of electricity including Fuel Cost Account Adjustment, but without taking into account rebates; (ii) the amounts benefiting consumers specified by and calculated in accordance with any agreement from time to time entered into between us and the Hong Kong Government; (iii) electricity-related fees and other revenue derived from the use of our Fixed Assets; and (iv) unclaimed deposits from our customers.

For FY2010, FY2011 and FY2012, we recorded Gross Tariff Revenue of HK$13,194.0 million, HK$13,995.0 million and HK$14,305.0 million, respectively. The increase from FY2010 to FY2011 was primarily the result of increases in Fuel Cost Account Adjustments. The increase from FY2011 to FY2012 was primarily due to (i) an increase in revenue from the sales of electricity and (ii) Fuel Cost Account Adjustments.

Operating Costs

Our operating costs comprise the aggregate of our direct costs and other operating costs less (i) depreciation and amortisation and (ii) Scheme of Control adjustments.

For FY2010, FY2011 and FY2012, our operating costs were HK$1,097.0 million, HK$1,040.0 million and HK$1,040.0 million, respectively. The decrease from FY2010 to FY2011 was primarily due to lower other operating costs for FY2011, primarily as a result of a decrease in rates and government rent.

Depreciation and Amortisation

Our fixed assets are depreciated on a straight-line basis over their estimated useful lives after taking into account the estimated residual value. Interests in leasehold land held for our own use under finance leases are amortised on a straight-line basis over the unexpired lease term. For FY2010, FY2011 and FY2012, our depreciation and amortisation totalled HK$1,793.0 million, HK$1,836.0 million and HK$1,919.0 million, respectively. The increase from FY2010 to FY2012 was primarily due to an increase in the balance of our fixed assets.

Scheme of Control Net Revenue

For FY2010, FY2011 and FY2012, our Scheme of Control net revenue remained relatively stable at HK$4,810.0 million, HK$4,778.0 million and HK$4,824.0 million, respectively.

Permitted Return

The Permitted Return is regulated by the Scheme of Control. For FY2010, FY2011 and FY2012, the Permitted Return remained relatively stable at HK$4,752.0 million, HK$4,824.0 million and HK$4,896.0 million, respectively.