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## DISTRIBUTIONS

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*Statements contained in this section that are not historical facts may be forward-looking statements. Such statements are based on the assumptions set out in this section. While the Directors consider such assumptions to be reasonable, whether actual results will meet our expectations will depend on a number of risks and uncertainties over which we have no control. Under no circumstances should the inclusion of such information in this prospectus be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Trustee-Manager, the Company or any of the Relevant Persons or that these results will be achieved or are likely to be achieved. Investors are cautioned not to place undue reliance on these forward-looking statements that speak only as at the date of this prospectus. See “Forward-looking Statements” and “Risk Factors” for further information.*

*In addition, investors should note that the expected distributions to the Holders of Share Stapled Units, DPU, annualised DPU and annualised distribution yield for the period from the Listing Date to 31 December 2014 are not profit forecasts for the purposes of the Listing Rules or any other purpose and accordingly, have not been reported on by the Joint Sponsors or the Reporting Accountants.*

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

### OVERVIEW

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

The Trustee-Manager will rely on the receipt of dividends, distributions and other amounts from the Company to make distributions (on behalf of HK Electric Investments) to the Holders of Share Stapled Units. The amount of such dividends, distributions and other payments which may be made by the Company to the Trustee-Manager will depend on a number of factors, including the financial performance of the Group’s business and the financial condition, results of operations and cash flows of the Group. There is no assurance that the Trustee-Manager will be able to pay or maintain distributions to the Holders of Share Stapled Units and such distributions may not be stable. See the risk factor headed “*Risk Factors — Risks Relating to the Amount and Stability of the Distributions — The Trustee-Manager may not be able to pay or maintain distributions to Holders of Share Stapled Units and such distributions may not be stable as they are dependent on a number of factors, including the financial performance of the Group and the ability of the Group to generate sufficient cash flows*” for further information.

### DISTRIBUTION POLICY

No distributions have been made in respect of the Share Stapled Units since the establishment of HK Electric Investments.

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### Trust Distributable Income

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

### Group Distributable Income

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

“**Group Distributable Income**” refers to the audited consolidated profit attributable to the Holders of Share Stapled Units for the relevant financial year or the relevant distribution period after:

- (a) eliminating the effects of the Adjustments;
- (b) (i) adding/(deducting) any net decrease/(increase) in the Fuel Clause Recovery Account asset, (ii) deducting any rebates made from the Rate Reduction Reserve, (iii) adding/(deducting) any net decrease/(increase) in other working capital items, (iv) deducting the actual amount of taxes paid and (v) deducting the actual amount of funding applied in respect of employee retirement benefit schemes;
- (c) deducting the actual amount of capital expenditure incurred;
- (d) deducting (i) the actual amount used to repay the principal amount of any debt and (ii) the actual amount used to pay any interest and financing fees (net of the actual amount of interest received); and
- (e) at the discretion of the Company Directors, deducting any amounts set aside (i) in respect of future capital expenditure or (ii) for the purpose of future debt service and/or compliance with covenants in any credit facility agreement.

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

- (a) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control;
- (b) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions;
- (c) impairment of goodwill/recognition of negative goodwill;
- (d) material non-cash gains/losses;
- (e) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units;

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- (f) depreciation and amortisation;
- (g) tax charges as shown in the consolidated statement of profit or loss; and
- (h) net finance income/costs as shown in the consolidated statement of profit or loss.

The Trust Deed and the Company's Articles state the current intention of the Company Directors to declare and distribute 100% of the Group Distributable Income for (a) the period from the Listing Date to 31 December 2014 and (b) each financial year thereafter. In addition, subject to compliance with all applicable laws of the Cayman Islands and the Company's Articles, the Company Directors may declare and distribute such additional amounts as the Company Directors in their discretion determine.

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

The Company intends to incur capital expenditure in accordance with the relevant Development Plan as agreed with the Hong Kong Government from time to time and manage its capital structure in the manner set out in "*Financial Information — Liquidity, Capital Resources and Capital Management*". Please also see "*Risk Factors — Risks Relating to Our Operations*" for a discussion of the potential risks of the Company's ability to do so.

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 the 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

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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.

The above distribution policy is a statement of the current intention of the Company Directors only. It is not a legally binding obligation of the Company Directors, the Company, the Trustee-Manager or HK Electric Investments and is subject to change.

In the context of the Share Stapled Units structure, the Company may declare and make distributions to the Trustee-Manager out of the Company's available funds and not only out of accounting profits. The Company's subsidiaries may upstream amounts to the Company, by a combination of distributions from distributable reserves and inter-company loans, to fund distributions by the Company.

The Company may make distributions out of the Company's distributable reserves (including, subject to a solvency test and the provisions of the Company's Articles, share premium) to the Trustee-Manager. The Trustee-Manager in turn is required under the Trust Deed to make distributions to the Holders of Share Stapled Units on behalf of HK Electric Investments. The Trustee-Manager, in its capacity as trustee-manager of HK Electric Investments, is not subject to restrictions relating to profits available for distribution in respect of the amounts that it can distribute to the Holders of Share Stapled Units.

Immediately following the completion of the Reorganisation and the Global Offering, the amount of reserves, representing the share premium after deducting underwriting commissions and any incentive fees and listing expenses that will be charged to equity, available to the Company for distribution is expected to be approximately HK\$47,333.6 million, based on the Minimum Offer Price. As at 30 September 2013, HEC had approximately HK\$2,755.7 million of distributable reserves, which included profit attributable to the equity shareholders and actuarial gains in relation to remeasurement of net defined benefit obligations. Pursuant to the Sale and Purchase Agreement, all profit attributable to the equity shareholders of HEC up to completion of the Acquisition shall belong to PAH. The other subsidiaries of the Company, following the completion of the Reorganisation, have no distributable reserves. The distributable reserves of the Company will be increased by any net profit earned, or decreased by any net losses incurred or any distributions made, in subsequent periods.

### **Payment of Distributions**

Under the Trust Deed, subject to the relevant laws and regulations and the requirement that the Trustee-Manager distributes 100% of the Trust Distributable Income to the Holders of Share Stapled Units, the Trustee-Manager may declare a distribution in cash to the Holders of Share Stapled Units out of the Trust Property in respect of such period, of such amounts and on such dates as it may think fit.

In addition, under the Trust Deed, the Trustee-Manager may also distribute an amount which represents part of the capital of HK Electric Investments and which the Trustee-Manager reasonably determines to be in excess of the financial needs of HK Electric Investments and/or part or all of the unrealised gains.

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The form, frequency and amount of future distributions (if any) will depend on the earnings, financial position and results of operations of the Group, as well as contractual restrictions (including limitations on borrowings under the Trust Deed and compliance with financial undertakings imposed under the Group's loan facilities agreements), provisions of applicable laws and regulations and other factors including, but not limited to, funding requirements with reference to the prevailing business environment and operations, and expansion plans, other capital management considerations, the overall stability of distributions and prevailing industry practice. If the distribution policy were to be changed in the future, the Trustee-Manager and the Company will issue an announcement describing the relevant change.

The ability of the Trustee-Manager (on behalf of HK Electric Investments) to make distributions is therefore dependent upon, among other things, the Group's businesses generating sufficient income and the Group having sufficient cash to make the payments required. See *"Risk Factors — Risks Relating to the Amount and Stability of the Distributions — The Trustee-Manager may not be able to pay or maintain distributions to Holders of Share Stapled Units and such distributions may not be stable as they are dependent on a number of factors, including the financial performance of the Group and the ability of the Group to generate sufficient cash flows"* for further information.

It is the current intention of the Company Directors that the Company will declare and make distributions to the Trustee-Manager on a semi-annual basis, with the interim and final distributions in respect of a financial year being equal, in aggregate, to 100% of the Group Distributable Income in respect of that financial year. The respective proportions of the aggregate annual distribution to be paid as an interim distribution and a final distribution will be determined by the Company Board in its discretion and the amount of the interim distribution need not be proportionate to the Group Distributable Income in respect of the first six months of the relevant financial year (or other period in respect of which the distribution is made) or proportionate to the Group Distributable Income in respect of the relevant financial year.

The Trustee-Manager will make distributions to the Registered Holders of Share Stapled Units on a semi-annual basis from the interim and final distributions to be made by the Company to the Trustee-Manager as described above. The Trustee-Manager will pay the interim distribution within four months after 30 June and the final distribution within six months after 31 December of each year.

Distributions will be declared in Hong Kong dollars. Share Stapled Units will be held through HKSCC Nominees or directly by Registered Holders of Share Stapled Units in the form of certificates issued jointly by the Trustee-Manager and the Company (in their discretion) to them in respect of the Share Stapled Units. Each Registered Holder of Share Stapled Units will receive his *pro rata* share of the Hong Kong dollar distribution declared.

The Trustee-Manager will inform the Stock Exchange immediately of:

- (a) any decision to declare, recommend or pay any distribution and the rate and amount thereof;
- (b) any decision not to declare, recommend or pay any distribution which would otherwise have been expected to be declared, recommended or paid in due course; and
- (c) any preliminary announcement of profits or losses for any year, half year or other period.

The Trustee-Manager will inform the Registered Holders of Share Stapled Units of any decision referred to above by way of an announcement. The announcement will be made as soon as possible after the decision.

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### STATEMENT OF DISTRIBUTIONS

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

### Expected Distributions for the Period from the Listing Date to 31 December 2014

The Directors expect that, based on the assumptions relating to the 2014 Profit Forecast as set out in “2013 Profit Estimate and 2014 Profit Forecast” and in the absence of unforeseen circumstances, the total distributions to be declared and paid to the Holders of Share Stapled Units for the period from the Listing Date to 31 December 2014 will not be less than HK\$3,217.7 million. Such distributions are calculated based on (a) the expected Group Distributable Income for the period from the Listing Date to 31 December 2014, which is calculated from the 2014 Profit Forecast and (b) the assumption that the anticipated Listing Date will be 29 January 2014, and such distributions will vary if the actual Listing Date is different.

### Expected Distribution Yields

The Directors’ expectation of yields stated in the following table are calculated based on the Minimum Offer Price and the Maximum Offer Price. Such yields will vary for investors who purchase Share Stapled Units in the secondary market at a market price that differs from the Minimum Offer Price and the Maximum Offer Price or for investors who do not hold the Share Stapled Units for the entire period from the Listing Date to 31 December 2014.

	<u>Based on the Minimum Offer Price of HK\$5.45</u>	<u>Based on the Maximum Offer Price of HK\$6.30</u>
	<u>Listing Date to 31 December 2014</u>	<u>Listing Date to 31 December 2014</u>
Expected distributions to the Holders of Share Stapled Units (HK\$) <sup>(1)</sup> .....	3,217.7 million	3,217.7 million
DPU (HK cents) <sup>(2)</sup> .....	36.41	36.41
Annualised distributions to the Holders of Share Stapled Units (HK\$) <sup>(3)</sup> .....	3,485.0 million	3,485.0 million
Annualised DPU (HK cents) <sup>(2)(4)</sup> .....	39.44	39.44
Annualised distribution yield <sup>(4)(5)</sup> .....	7.237%	6.260%

*Notes:*

- (1) Please see “— Expected Distributions for the Period from the Listing Date to 31 December 2014” above for further details on how the expected distributions have been calculated.
- (2) Assumes that 8,836,200,000 Share Stapled Units will be in issue for the entire period from the Listing Date to 31 December 2014.

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- (3) The annualised distributions are calculated by annualising the expected distributions to the Holders of Share Stapled Units for the period from the Listing Date to 31 December 2014.
- (4) The annualised DPU is calculated based on the annualised distributions to the Holders of Share Stapled Units divided by the number of Share Stapled Units that will be in issue. The annualised distribution yield is calculated from the annualised DPU.
- (5) The annualised distribution yield is calculated based on the Minimum Offer Price and the Maximum Offer Price. Such yield will vary for investors who purchase Share Stapled Units in the secondary market at a market price that differs from the Minimum Offer Price and the Maximum Offer Price or for investors who do not hold the Share Stapled Units for the entire period from the Listing Date to 31 December 2014.