
RELATIONSHIP WITH PAH

OVERVIEW

Immediately following the completion of the Reorganisation and the Global Offering, Quickview (a wholly-owned subsidiary of PAH) will hold approximately 49.9% of the Share Stapled Units in issue on the Listing Date (assuming the Over-allotment Option is not exercised) and approximately 42.4% of the Share Stapled Units in issue on the Listing Date (assuming the Over-allotment Option is exercised in full). Accordingly, following the completion of the Reorganisation and the Global Offering, each of Quickview and PAH will be a Controlling Holder of Share Stapled Units.

Since HEC will cease to be a subsidiary of PAH upon the completion of the Reorganisation and the Global Offering, the results in HEC and HEFL will no longer be consolidated in the financial statements of PAH. Instead, the Trust Group will be an associate of PAH and the financial results of the Group will be accounted for in PAH's financial statements using the equity method of accounting.

BACKGROUND OF PAH

PAH, formerly known as Hongkong Electric Holdings Limited, was incorporated in Hong Kong on 9 April 1976 with limited liability. The shares of PAH are listed on the Main Board of the Stock Exchange (Stock Code: 00006) and traded in the form of American depository shares on the OTC Markets Group Inc. in the United States (Ticker: HGKGY). PAH is also one of the constituents of the Hang Seng Index, Hang Seng Corporate Sustainability Index and the Dow Jones Sustainability Asia Pacific Index.

PAH is an investment holding company principally engaged in power related businesses. PAH has interests in and participates in the management of businesses in power generation, transmission and distribution, gas distribution, and energy from waste worldwide, including in the United Kingdom, Australia, the PRC, New Zealand, Thailand, Canada and the Netherlands, in addition to its investment in the electricity business in Hong Kong through HEC.

It is the intention of the PAH Group that after the Listing, the management of PAH will focus its time and resources on identifying new acquisition and investment opportunities to further develop PAH's power portfolio outside of Hong Kong, as well as strengthening its existing global power businesses.

INDEPENDENCE OF THE GROUP FROM THE PAH GROUP

The Board is satisfied that after the Listing, the Group will be able to carry on its business independently of the PAH Group on the basis of the following:

(a) Clear delineation between the businesses of the Group and the businesses of the PAH Group

Upon the Listing, the Group, through its principal operating subsidiary, HEC, will be engaged in the businesses of generation, transmission, distribution and supply of electricity in Hong Kong. For details of our operations and business, please refer to "*Business*".

RELATIONSHIP WITH PAH

On the other hand, the PAH Group will continue to focus on businesses in power-related facilities and projects outside Hong Kong. The PAH Group holds investments across four continents around the world. These investments include a portfolio of power generation assets, electricity distribution networks, gas distribution network and energy from waste businesses in the United Kingdom, Australia, the PRC, New Zealand, Canada, Thailand and the Netherlands. The remaining businesses of the PAH Group in Hong Kong do not relate to the generation, transmission, distribution or supply of electricity, and are insignificant in terms of asset value, revenue and profit contribution.

In addition, the Company and PAH have entered into the Non-Competition Deed in order to maintain a clear delineation of the business of the Group (on the one hand) and the business of the PAH Group (on the other hand) following the Listing. Further details are set out in “— *Non-Competition Deed*” below.

On the basis of the foregoing, there is a clear delineation of the businesses of the Group and the businesses of the PAH Group following the Listing.

(b) Financial independence of the Group from the PAH Group

As at the Latest Practicable Date, Inter-company Loans in the aggregate principal amount of approximately HK\$18,612.0 million were owed by HEC to the PAH Group. The Inter-company Loans, to the extent not repaid prior to the Listing, are expected to be repaid by HEC on or before the fifth business day following the Listing Date using the proceeds from the HEC Loan Facility. Inter-company Loans include interim dividends declared by HEC but not yet paid to PAH before completion of the Acquisition. In addition, any amount of profit attributable to the equity shareholders of HEC up to completion of the Acquisition which shall belong to PAH and which is not distributed to PAH prior to completion of the Acquisition shall be distributed by HEC to Treasure Business as a further interim dividend of HEC, and Treasure Business will pay the same amount to PAH not later than 30 April 2014. See “*History and Reorganisation — The Reorganisation*”.

In connection with the Acquisition, part of the Acquisition Consideration will be settled by way of the Promissory Note to be issued by Treasure Business to PAH on the Completion Date (which is the same date as the Listing Date). The Promissory Note is expected to be redeemed by the payment of cash on or before the fifth business day following the Listing Date using part of the proceeds from the Company Loan Facility. For further details, please refer to “*History and Reorganisation — The Reorganisation*”.

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

In addition, certain leading financial institutions have extended loans and facilities to HEC which are not guaranteed by the PAH Group, and during the Track Record Period, HEC had a positive cash flow position before taking into account dividends paid to PAH. For details, please refer to “*Appendix I — Accountants’ Report*”.

On the basis of the foregoing, the Group will be financially independent of the PAH Group following the Listing.

RELATIONSHIP WITH PAH

(c) Independence of directors and management

Upon the Listing, certain of the Directors and senior management of the Group will continue to hold directorships and roles in the PAH Group as set out below:

Directors:

Name	Company and Trustee-Manager	PAH Group
Mr. FOK Kin Ning, Canning . . .	Chairman and Executive Director	Chairman and Executive Director
Mr. WAN Chi Tin	Executive Director	Executive Director ⁽¹⁾
Mr. CHAN Loi Shun.	Executive Director	Executive Director
Mrs. CHOW WOO Mo Fong, Susan	Executive Director	None ⁽²⁾
Mr. YUEN Sui See	Executive Director	None ⁽²⁾
Mr. CHENG Cho Ying, Francis.	Executive Director	None
Mr. TSO Kai Sum	Non-executive Director	None ⁽³⁾
Mr. Ronald Joseph ARCULLI	Non-executive Director	None ⁽²⁾
Mr. FONG Chi Wai, Alex	Independent Non-executive Director	None ⁽²⁾
Mr. LEE Lan Yee, Francis	Independent Non-executive Director	None ⁽²⁾
Mr. George Colin MAGNUS	Independent Non-executive Director	None ⁽²⁾
Mr. Donald Jeffrey ROBERTS	Independent Non-executive Director	None

Senior Management:

Name	Group	PAH Group
Mr. WONG Kim Man	Chief Financial Officer	None
Ms. CHAN Lai Yee, Trini	General Manager (Human Resources)	None
Mr. CHAN Ping Kee	General Manager (Transmission & Distribution)	None
Mr. LAU Chi Kwong.	General Manager (Projects)	None
Mr. NG Wai Cheong, Alex	Group Legal Counsel & Company Secretary	Group Legal Counsel & Company Secretary
Mr. WONG Yuk Keung, Arthur	General Manager (Group Commercial)	None
Mr. YEE Tak Chow	General Manager (Corporate Development)	None
Ms. YEUNG Yuk Chun, Mimi	General Manager (Public Affairs)	None

Notes:

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

RELATIONSHIP WITH PAH

- (2) Mrs. CHOW WOO Mo Fong, Susan, Mr. YUEN Sui See, Mr. Ronald Joseph ARCULLI, Mr. FONG Chi Wai, Alex, Mr. LEE Lan Yee, Francis and Mr. George Colin MAGNUS, who are currently directors of PAH, will cease to act as directors of PAH prior to the Listing.
- (3) Mr. TSO Kai Sum, who is currently a non-executive director of PAH and the deputy chairman and senior adviser to the PAH Board, will cease to act as a director of PAH and the deputy chairman and senior adviser to the PAH Board prior to the Listing.

The Trustee-Manager and the Company (on the one hand) and PAH (on the other hand) have boards of directors that function independently of each other.

The Directors believe that the Group will be able to operate independently of the PAH Group with effect from the Listing for the following reasons:

- (i) the Board will comprise 12 members, nine of whom will have no ongoing roles with, and are therefore independent from, the PAH Group;
- (ii) all four independent non-executive Directors (representing one-third of the Board) will not have any ongoing role with the PAH Group. Accordingly, the Directors believe that the independent non-executive Directors will be able to provide independent oversight over the Board's decision making on significant transactions, connected transactions and other transactions involving any conflict of interests between the Group and PAH Group and to protect the interests of the independent Holders of Share Stapled Units;
- (iii) Mr. WAN Chi Tin, the Chief Executive Officer and Executive Director, will have dedicated responsibilities for the Group and will oversee the operations of the Group together with the senior management of the Company. While Mr. Wan will remain as an executive director of PAH to continue to contribute to the PAH board his experience in the power industry, his role and participation on the PAH board will be limited as compared to his role prior to the Listing, in view of his stepping down from the position as managing director of PAH prior to the Listing and his new appointment as Chief Executive Officer and Executive Director of the Company;
- (iv) in addition to the six executive Directors, the eight other members of the senior management team of the Group will be, together with the executive Directors, responsible for the day-to-day operations and management of the Group. Other than Mr. NG Wai Cheong, Alex, the Group Legal Counsel and Company Secretary of the Company, who will also act as the Group Legal Counsel and Company Secretary of PAH responsible for legal and company secretarial functions of PAH, all the other seven members of the senior management team of the Group will not have any ongoing managing roles in the PAH Group; and
- (v) the Trustee-Manager and the Company have established the following corporate governance measures to seek to (A) address any potential conflicts of interest in respect of the overlapping directors and senior management of the Group (on the one hand) and the PAH Group (on the other hand) and (B) safeguard the interests of the independent Holders of Share Stapled Units:
 - (1) any Director(s) with an interest in the relevant matter will abstain from voting in respect of that matter and will not be counted in the quorum for the relevant Board meeting to consider that matter. In such a situation, only the Directors who do not have any ongoing

RELATIONSHIP WITH PAH

role with the PAH Group will vote and decide on matters in which the PAH Group is interested. In this context, a conflict, so far as the Board is concerned, will be taken to include any matter in which the PAH Group has a direct or indirect interest (other than through its holding of Share Stapled Units);

- (2) the Trustee-Manager's Articles provide that a Trustee-Manager Director must give priority to the interest of all the Registered Holders of Units as a whole over the interest of the Trustee-Manager in the event of a conflict between the interest of all the Registered Holders of Units as a whole and the interest of the Trustee-Manager. See "*Appendix IV — Trust Deed — Duties of the Trustee-Manager under the Trust Deed*" for details of the duties of a Trustee-Manager Director;
- (3) potential and actual conflicts of interest arising from connected transactions between the Group (on the one hand) and the PAH Group (on the other hand) have been identified and the parties will comply with the applicable requirements of the Listing Rules governing connected transactions. In particular, PAH will abstain from voting at any meetings of Registered Holders of Share Stapled Units where the PAH Group has a material interest in the relevant resolution(s); and
- (4) any potential conflicts of interest that may arise from the future development of the Group (on the one hand) and the PAH Group (on the other hand) has been minimised through the Non-Competition Deed, as described in "*— Non-Competition Deed*" below.

(d) Independence of administrative capability

The Group will have its own separate management team and separate functional units that focus on, among other things, engineering and development, operations, project management, finance, accounting, treasury, internal audit, human resources, public affairs services and administration, all of which will operate without reliance on the PAH Group. The Group will also have its own separate principal place of business upon Listing.

Accordingly, the Group will be administratively independent of the PAH Group following the Listing.

(e) Ongoing and future connected transactions between the Group and the PAH Group

Upon the Listing, certain transactions between the Group and the PAH Group will become continuing connected transactions of HK Electric Investments and the Company under the Listing Rules. The details of such continuing connected transactions are set out in "*Connected transactions*". All of these continuing connected transactions would continue to be conducted on arm's length commercial terms and will be capable of being satisfactorily monitored by the management of the Group.

NON-COMPETITION DEED

In order to maintain a clear delineation of the business of the Group (on the one hand) and the business of the PAH Group (on the other hand) and to minimise any potential conflicts of interest that may arise from the future development of the Group (on the one hand) and the PAH Group (on the other hand), the Company and PAH entered into the Non-Competition Deed on 14 January 2014.

RELATIONSHIP WITH PAH

Pursuant to the Non-Competition Deed, PAH has irrevocably agreed to the Company that, save as provided below, it will not, and it will procure that none of the other members of the PAH Group will, whether on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on, or be engaged in or interested in, directly or indirectly, whether as a shareholder, partner, agent or otherwise (other than being a holder of Share Stapled Units or being the Trustee-Manager or its holding company, or being the holding company of any holder of any Share Stapled Units, or otherwise being interested directly or indirectly in any Share Stapled Units), the business of generation, transmission, distribution and supply of electricity in Hong Kong.

The exceptions under the Non-Competition Deed provide that the restrictions in the Non-Competition Deed do not apply to the PAH Group's shares or interests in shares or other securities in any company which conducts or is engaged in the business of generation, transmission, distribution and supply of electricity in Hong Kong (the "**Subject Company**"), provided that:

- (a) such shares or securities are listed on an approved stock exchange (as defined under the Companies Ordinance);
- (b) the aggregate equity interest or number of shares or other securities held by the PAH Group do not exceed 10% of the issued capital or issued shares or other securities of the Subject Company; and
- (c) the PAH Group does not have board or management control of the Subject Company.

PAH has further undertaken to provide the Company with an annual written confirmation in respect of compliance by the PAH Group with the terms of the Non-Competition Deed and its consent to the inclusion of such confirmation in our annual report and all information as may reasonably be requested by us for our review and enforcement of the Non-Competition Deed.

The obligations of PAH under the Non-Competition Deed in relation to the PAH Group and members thereof shall, in relation to joint ventures in the PAH Group from time to time, be limited to exercising all of PAH's voting rights and powers of control in respect of or over the joint ventures which are available to and exercisable by PAH, but not further or otherwise.

A committee comprising all the independent non-executive Directors will be responsible for overseeing compliance by the PAH Group with the Non-Competition Deed.

The undertakings given by PAH in the Non-Competition Deed will commence on the Listing Date and will terminate on the earlier of:

- (i) the date on which PAH, directly or indirectly, is interested in less than 30% of the Share Stapled Units in issue; and
- (ii) the date on which the Share Stapled Units cease to be listed on the Stock Exchange.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business.