
CONNECTED TRANSACTIONS

A. OVERVIEW

Prior to the Listing Date, we entered into certain transactions with parties who will, upon the Listing, become our connected persons within the meaning given in Chapter 14A of the Listing Rules. These transactions will therefore constitute continuing connected transactions of HK Electric Investments and the Company under Chapter 14A of the Listing Rules. Details of these transactions as well as the waivers granted by the Stock Exchange from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out in this section below.

B. EXEMPT CONTINUING CONNECTED TRANSACTIONS

Following the Listing, the following transactions will constitute continuing connected transactions of HK Electric Investments and the Company which are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements pursuant to Rule 14A.33 of the Listing Rules.

Sharing of support services between the Group and the PAH Group

(a) *Principal terms*

On 14 January 2014, PAH and the Company entered into a support services agreement (the "**Support Services Agreement**") pursuant to which members of the Group shall provide the PAH Group with general office administration and other support services (such as, among others, legal, company secretarial, financial, accounting, treasury, internal audit, human resources, public affairs services, information technology and administrative services) and office facilities as may be requested by the PAH Group from time to time. On the other hand, pursuant to the Support Services Agreement, upon our request, the PAH Group shall procure the provision to the Group of group insurance and services from third party insurance companies or agents which covers the Group, and such other support services as may be agreed by the Company and PAH.

The party providing or procuring services pursuant to the Support Services Agreement will be paid service fees to be determined based on the total costs incurred in the provision or procurement of the relevant support services and office facilities and allocated among the PAH Group and the Group on a fair and equitable basis, taking into account the time spent by the relevant personnel of the Group or the PAH Group when providing or procuring such services.

The Support Services Agreement is for an initial term of three years from the Listing Date, and shall be automatically renewed for successive periods of three years upon expiry subject to compliance with the relevant requirements of the Listing Rules for the time being, provided that it may be terminated at any time by either party by giving six months' prior written notice to the other party.

(b) *Historical transaction*

During the Track Record Period, various administrative and support services were shared between the PAH Group and the Group, but on a basis different from that of the transactions contemplated under the Support Services Agreement.

CONNECTED TRANSACTIONS

(c) *Listing Rules requirements*

As PAH is entitled to control the exercise of more than 10% of the voting power at any general meeting of the Company, PAH and its subsidiaries are connected persons of the Company within the meaning of the Listing Rules. Accordingly, the transactions under the Support Services Agreement will constitute continuing connected transactions of HK Electric Investments and the Company under the Listing Rules.

Since the arrangements under the Support Services Agreement constitute the sharing of administrative services on a cost basis, and the cost of such services are identifiable and will be allocated to the parties involved on a fair and equitable basis, pursuant to Rule 14A.33(2) of the Listing Rules, the transactions under the Support Services Agreement are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

C. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

On-sale of Gas from PAH to HEC

(a) *Purchase of natural gas*

The natural gas that we have been using as one of the fuels for our electricity generation is either (i) supplied from Australia and purchased by PAH from Guangdong Dapeng pursuant to the Dapeng Gas Supply Contract, or (ii) supplied mainly from Qatar and purchased by PAH from CNOOC Gas pursuant to the CNOOC Gas Supply Contract. The Gas Supply Contracts are take-or-pay gas sales contracts.

The Dapeng Gas Supply Contract and the CNOOC Gas Supply Contract were entered into by PAH, as purchaser, in 2004 and 2009 respectively, for the purposes of making available to HEC a stable supply of natural gas for using as fuel for its electricity generation. PAH has been on-selling the natural gas purchased by it under the Gas Supply Contracts to us on an at cost basis. The natural gas is directly transported to the Lamma Power Station from the Guangdong LNG Terminal, through a submarine pipeline which is owned by us.

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. Pending completion of such novation, the position of PAH under the Dapeng Gas Supply Contract will be passed on to us pursuant to the Gas On-sale Agreement (as defined and described below) entered into between PAH and HEC, so that after Listing, PAH will continue to purchase natural gas pursuant to the Dapeng Gas Supply Contract from Guangdong Dapeng and to meet and defray all costs and expenses payable under the Dapeng Gas Supply Contract, and such natural gas purchased will be on-sold to HEC pursuant to the Gas On-sale Agreement.

CONNECTED TRANSACTIONS

An announcement will be made by the Company and the Trustee-Manager upon completion of the novation of the Dapeng Gas Supply Contract, if such novation is completed after the Listing. Where applicable, disclosure regarding the status of the novation of the Dapeng Gas Supply Contract will be included in our annual report until the conclusion of the discussions with Guangdong Dapeng with respect to the novation. As long as the Gas On-sale Agreement and the Stock Exchange's related waiver from compliance with the requirements under Chapter 14A of the Listing Rules are valid and subsisting, details of the waiver and the connected transactions relating to the Gas On-sale Agreement will also be disclosed in our annual reports.

(b) *Principal terms of the Dapeng Gas Supply Contract*

The initial term of the Dapeng Gas Supply Contract expires on 27 September 2031, and may be extended by PAH for 12 months for the sole purpose of its recovery of any natural gas paid for by PAH but not yet delivered to it during the initial term. In the event that the natural gas to be so recovered is not recovered during such extension period, it may be further extended for up to 12 additional months.

Under the Dapeng Gas Supply Contract, until 31 March 2027, Guangdong Dapeng shall be required to supply 16,278,000GJ natural gas to PAH in each year ending 31 March, and PAH shall purchase from or pay Guangdong Dapeng for at least 14,650,200GJ natural gas in each such year (subject to adjustments). From 1 April 2027 until the expiry of the initial term of the Dapeng Gas Supply Contract, Guangdong Dapeng shall be required to supply 10,980,000GJ natural gas to PAH in each year ending 31 March, and PAH shall purchase from or pay Guangdong Dapeng for at least 9,882,000GJ natural gas in each such year, save in respect of the period from 1 April 2031 to 27 September 2031, in which case, the amount committed to be supplied or purchased shall be reduced on a pro rata basis.

The price for the natural gas to be sold and purchased under the Dapeng Gas Supply Contract is variable, as it is dependent on the oil prices as quoted by specified oil price indexes from time to time, but is subject to a stipulated price ceiling as set out in the Dapeng Gas Supply Contract. In addition to the natural gas price, PAH shall pay to Guangdong Dapeng the gas transportation charges, gas terminal charges, and import duty, value added tax and any statutory taxes and fees incurred by Guangdong Dapeng in connection with the natural gas that PAH purchases under the Dapeng Gas Supply Contract.

(c) *Principal terms of the Gas On-sale Agreement*

On 14 January 2014, HEC as purchaser and PAH as vendor entered into a gas on-sale agreement (the "**Gas On-sale Agreement**") pursuant to which PAH has agreed to sell to HEC and HEC shall purchase from or pay PAH for all of the natural gas that PAH purchases or pays for under the Dapeng Gas Supply Contract and all costs and expenses which are payable by PAH pursuant to the Dapeng Gas Supply Contract shall pass-through to HEC.

The Gas On-sale Agreement is for a term commencing on the Listing Date and until the expiry of the term of the Dapeng Gas Supply Contract (including the extended term, if any). The Gas On-sale Agreement will automatically terminate upon completion of the novation of the Dapeng Gas Supply Contract by PAH to the Group.

Pursuant to the Gas On-sale Agreement, the written consent of the Group is required before PAH could agree to any amendment to the Dapeng Gas Supply Contract.

CONNECTED TRANSACTIONS

(d) *Historical transaction*

For each of FY2010, FY2011, FY2012 and 9M2013, the aggregate amounts paid by HEC to Guangdong Dapeng and CNOOC Gas in discharge of obligations owing by PAH for the natural gas purchased by PAH from Guangdong Dapeng and CNOOC Gas pursuant to the Gas Supply Contracts and on-sold to HEC were approximately HK\$2,211 million, HK\$2,624 million, HK\$2,930 million, and HK\$2,045 million, respectively. For the volumes of gas supplied by Guangdong Dapeng and CNOOC Gas during such periods, see “*Business — Fuel Supply — Natural Gas*”.

For FY2013, the amount of natural gas committed to be supplied by Guangdong Dapeng and purchased by PAH under the Dapeng Gas Supply Contract was approximately 16.3 million GJ.

The on-selling of natural gas by PAH to HEC has been on an at cost basis during the above periods. As mentioned above, with effect from 8 December 2013, the CNOOC Gas Supply Contract was novated by PAH to HEC.

(e) *Annual caps*

The Company expects that the annual volume of natural gas to be purchased by HEC from PAH under the Gas On-sale Agreement shall not exceed the following caps:

Year	Annual cap (million GJ)
FY2014	17.2
FY2015	17.2
FY2016	17.2
FY2017	17.2
FY2018	17.2
FY2019	17.2
FY2020	17.2
FY2021	17.2
FY2022	17.2
FY2023	17.2
FY2024	17.2
FY2025	17.2
FY2026	17.2
FY2027	14.3
FY2028	11.6
FY2029	11.6
FY2030	11.6
FY2031	5.7

The above annual caps have been determined based on the annual amount of natural gas that Guangdong Dapeng is committed to supply to PAH pursuant to the Dapeng Gas Supply Contract for the periods as described above, and adding a buffer of approximately 5% for any additional natural gas which HEC may require from Guangdong Dapeng on top of the committed supply amount.

CONNECTED TRANSACTIONS

(f) *Listing Rules requirements*

As PAH is entitled to control the exercise of more than 10% of the voting power at any general meeting of the Company, PAH is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the transactions under the Gas On-sale Agreement will constitute continuing connected transactions of HK Electric Investments and the Company under the Listing Rules.

The transactions under the Gas On-sale Agreement will, upon the Listing and in absence of the grant of a waiver by the Stock Exchange as referred to in “— *Waivers*” below, be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Requirement on the duration of agreements

Pursuant to Rule 14A.35(1) of the Listing Rules, the term of an agreement for non-exempt continuing connected transactions shall not exceed three years, except in special circumstances where the nature of the transactions requires them to be of a duration longer than three years. The Directors, including the independent non-executive Directors, are of the view that it is normal market practice for fuel supply agreements for electricity generation business to be of a long term in order to ensure stable fuel supply.

Requirement on the imposition of annual caps in monetary value

Pursuant to Rule 14A.35(2) of the Listing Rules, annual caps expressed in terms of monetary value shall be set for non-exempt continuing connected transactions. The Trustee-Manager and the Company have applied for, and the Stock Exchange has granted, a waiver from strict compliance of such requirement so as to allow the annual caps for transactions under the Gas On-sale Agreement be expressed as fixed quanta, being maximum expected transaction volumes of natural gas to be purchased, rather than in terms of monetary value, subject to the waiver conditions disclosed below.

Under the Dapeng Gas Supply Contract, the commitment of Guangdong Dapeng and PAH is expressed in an annual volume of natural gas (in GJ). The Gas On-sale Agreement will involve a complete on-sale by PAH to HEC of all the natural gas purchased or paid for under the Dapeng Gas Supply Contract at cost, so that the amounts payable by HEC to PAH will be equivalent to the amounts payable by PAH to Guangdong Dapeng under the Dapeng Gas Supply Contract. As such, PAH is not expected to profit from the transactions under the Gas On-sale Agreement. Therefore, the Directors consider that there should not be any concern of our connected person taking advantage through higher transaction amounts under the Gas On-sale Agreement, against which the annual cap requirement under Rule 14A.35(2) of the Listing Rules is required to safeguard. Notwithstanding that, the Directors are of the view that higher transparency could be achieved by setting annual caps for such transactions, and that the above annual caps in transaction volumes of natural gas purchased will provide a meaningful parameter for the independent Holders of Share Stapled Units to gauge the size of the transactions, as the natural gas to be purchased by us will be used as fuel for our electricity generation.

D. ARRANGEMENT IN RELATION TO LISTING

As disclosed in “*Relationship with PAH — Independence of the Group from the PAH Group — Financial Independence of the Group from the PAH Group*”, the Inter-company Loans owed by HEC to the PAH Group, 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.

CONNECTED TRANSACTIONS

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.

The financial assistance provided under the Inter-company Loans and to be provided under the Promissory Note will, upon the Listing, constitute a connected transaction of HK Electric Investments and the Company under the Listing Rules which is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as it is for the benefit of HK Electric Investments and the Company on normal commercial terms (or better to HK Electric Investments and the Company) where no security over the assets of the Trust Group is granted in respect thereof.

E. WAIVERS

The Trustee-Manager and the Company have applied for, and the Stock Exchange has granted to the Trustee-Manager and the Company, a waiver from strict compliance with (1) the announcement and the approval of independent Holders of Share Stapled Units requirements under the Listing Rules in respect of the Gas On-sale Agreement, and (2) the requirement for setting of annual caps in monetary value for transactions under the Gas On-sale Agreement, so that the annual caps for transactions under each of the Gas On-sale Agreement will be expressed as fixed quanta, being the maximum expected transaction volumes of natural gas to be purchased, provided that if the Dapeng Gas Supply Contract is novated by PAH to the Group, such waiver will:

- (i) automatically terminate upon completion of the novation with respect to the waiver from the announcement/holders' approval requirements in (1) above; and
- (ii) cease to have effect in respect of the full financial years after the completion of such novation with respect to the waiver from the requirement to set annual caps in monetary value in (2) above.

Apart from the requirements with which strict compliance has been waived by the Stock Exchange as mentioned above, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules that are applicable to the continuing connected transactions under the Gas On-sale Agreement.

The independent non-executive Directors will review the continuing connected transactions under the Gas On-sale Agreement and confirm in the annual report and accounts of HK Electric Investments and the Company that such transactions for the financial year under review have been entered into in the manner as set out in paragraphs (1), (2) and (3) of Rule 14A.37 of the Listing Rules.

F. DIRECTORS' AND JOINT SPONSORS' VIEW

The Directors, including the independent non-executive Directors, are of the view that the terms of all the non-exempt continuing connected transactions under the Gas On-sale Agreement (as described under "*— Non-exempt Continuing Connected Transactions*" above) are on normal commercial terms and are fair and reasonable and in the interests of HK Electric Investments, the Company and Holders of

CONNECTED TRANSACTIONS

Share Stapled Units as a whole and have been and shall be entered into in the ordinary and usual course of business of the Group. The Directors, including the independent non-executive Directors, are also of the view that the above annual caps for such transactions are fair and reasonable and in the interests of HK Electric Investments, the Company and the Holders of Share Stapled Units as a whole.

The Directors, including the independent non-executive Directors, are of the view that the duration of the Gas On-sale Agreement is in accordance with normal business practice and could provide stability to the Group's business, and that apart from the requirements with which strict compliance has been waived by the Stock Exchange as mentioned above, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules that are applicable to the continuing connected transactions under the Gas On-sale Agreement.

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by us relating to the continuing connected transactions under the Gas On-sale Agreement (as described under "*— Non-exempt Continuing Connected Transactions*" above), have also conducted due diligence by discussing these transactions with us, and have obtained various representations and confirmations from us and members of the PAH Group. Based on the Joint Sponsors' due diligence, the Joint Sponsors are of the view that such non-exempt continuing connected transactions are on normal commercial terms and are fair and reasonable and in the interests of HK Electric Investments, the Company and Holders of Share Stapled Units as a whole and have been and shall be entered into in the ordinary and usual course of business of the Group. The Joint Sponsors are also of the view that the above annual caps for such transactions are fair and reasonable and in the interests of HK Electric Investments, the Company and the Holders of Share Stapled Units as a whole.

The Joint Sponsors are also of the view that, based on the due diligence conducted by them as described above, the duration of the Gas On-sale Agreement is in accordance with normal business practice and could provide stability to the Group's business.