

*The following is the text of a report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of HK Electric Investments and the Company, for the purpose of incorporation in this prospectus.*



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16 January 2014

The Directors  
HK Electric Investments Manager Limited  
(in its capacity as Trustee-Manager of HK Electric Investments)  
HK Electric Investments Limited  
44 Kennedy Road  
Hong Kong

Goldman Sachs (Asia) L.L.C.  
68th Floor, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

HSBC Corporate Finance (Hong Kong) Limited  
1 Queen's Road Central  
Hong Kong

Dear Sirs,

### **Introduction**

We set out below our report on the financial information relating to The Hongkong Electric Company, Limited ("HEC") and its subsidiary (hereinafter collectively referred to as the "Operating Group"), which will be acquired by HK Electric Investments Limited (the "Company") through its indirect wholly owned subsidiary upon completion of the proposed reorganisation mentioned below, comprising the consolidated balance sheets of the Operating Group and the balance sheets of HEC as at 31 December 2010, 2011 and 2012 and 30 September 2013 and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Operating Group, for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of HK Electric Investments (the "Trust") and the Company dated 16 January 2014 (the "Prospectus") in connection with the proposed listing of share stapled units to be issued by the Trust and the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing").

The Trust was constituted pursuant to a trust deed dated 1 January 2014 entered into between HK Electric Investments Manager Limited (the "Trustee-Manager") and the Company under the laws of Hong Kong and has been established as a fixed single investment trust, with its activities being limited to investment in securities and other interests in the Company. The Company was incorporated in the Cayman Islands on 23 September 2013 as an exempted company with limited liability under the Companies Law 2011 (as consolidated and revised) of the Cayman Islands. All assets of the Trust will be held by the Trustee-Manager on trust on behalf of holders of the share stapled units.

Pursuant to the reorganisation of the Company and its subsidiaries in anticipation for the listing of share stapled units to be issued by the Trust and the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Reorganisation"), the Operating Group will be acquired by the Company through its indirect wholly owned subsidiary in consideration for cash and share stapled units to be issued by the Trust and the Company (the "Acquisition"). The details of the Reorganisation are set out in the section headed "History and Reorganisation — The Reorganisation" in the Prospectus.

Neither the Trust nor the Company has carried on any business since the dates of their respective establishment/incorporation and neither are expected to carry on any business up to the date of completion of the Acquisition which is the same date as the date of the Listing. The Company does not have any material assets or liabilities and will have incurred an insignificant amount of expenses in connection with the Acquisition and the Listing up to the date of the Listing.

Both companies which comprise the Operating Group have adopted 31 December as their financial year end date.

Both companies which comprise the Operating Group were subject to audit during the Relevant Periods and the name of the respective auditors are set out in note 1(b) of Section B below. The financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of HEC have prepared the consolidated financial statements of the Operating Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with HKFRSs issued by the HKICPA. The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 were audited by us under separate terms of engagement with HEC in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA.

The Financial Information has been prepared by the directors of the Trustee-Manager and the Company for inclusion in the Prospectus in connection with the listing of share stapled units of the Trust and the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Hong Kong Companies Ordinance") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

**Directors' responsibility for the Financial Information**

The directors of the Trustee-Manager and the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Trustee-Manager and the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of HEC, its subsidiary or the Operating Group in respect of any period subsequent to 30 September 2013.

**Opinion**

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Operating Group and HEC as at 31 December 2010, 2011 and 2012 and 30 September 2013 and the Operating Group's consolidated results and cash flows for the Relevant Periods then ended.

**Corresponding Financial Information**

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Operating Group comprising the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 30 September 2012, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of the Trustee-Manager and the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Trustee-Manager and the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA's and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

## A CONSOLIDATED FINANCIAL INFORMATION OF THE OPERATING GROUP

## 1 Consolidated statements of profit or loss

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2010	2011	2012	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
<b>Turnover</b> . . . . .	2	10,362,998	10,184,790	10,399,601	8,061,453	7,885,468
Standard fuel costs . . . . .	4	(1,776,023)	(1,783,440)	(1,805,606)	(1,404,354)	(1,360,834)
Direct costs . . . . .		<u>(2,159,189)</u>	<u>(2,239,354)</u>	<u>(2,347,183)</u>	<u>(1,729,129)</u>	<u>(1,822,188)</u>
		6,427,786	6,161,996	6,246,812	4,927,970	4,702,446
Other revenue and other net income . . . . .	5	34,199	50,384	32,122	26,039	22,403
Other operating costs . . . . .		(734,394)	(639,861)	(651,987)	(458,656)	(520,823)
Finance costs . . . . .	8(a)	<u>(112,857)</u>	<u>(249,160)</u>	<u>(264,910)</u>	<u>(190,559)</u>	<u>(214,626)</u>
<b>Profit before taxation</b> . . . . .	8	5,614,734	5,323,359	5,362,037	4,304,794	3,989,400
Income tax . . . . .	9	<u>(936,073)</u>	<u>(888,855)</u>	<u>(890,918)</u>	<u>(715,214)</u>	<u>(660,735)</u>
<b>Profit after taxation</b> . . . . .		4,678,661	4,434,504	4,471,119	3,589,580	3,328,665
Scheme of Control transfers (to)/from: . . . . .	10					
- Tariff Stabilisation Fund . . . . .		(58,200)	46,053	71,969	(152,309)	235,001
- Rate Reduction Reserve . . . . .		<u>(932)</u>	<u>(1,022)</u>	<u>(1,410)</u>	<u>(1,130)</u>	<u>(354)</u>
<b>Profit attributable to the equity shareholders of HEC</b> . . . . .	11	<u>4,619,529</u>	<u>4,479,535</u>	<u>4,541,678</u>	<u>3,436,141</u>	<u>3,563,312</u>
<b>Earnings per share</b>						
Basic and diluted . . . . .	12	<u>HK\$3.83</u>	<u>HK\$3.71</u>	<u>HK\$3.77</u>	<u>HK\$2.85</u>	<u>HK\$2.96</u>

The accompanying notes form part of the Financial Information. Details of dividends payable to the equity shareholders of HEC attributable to the profit for each of the Relevant Periods are set out in section B note 13(a).

## 2 Consolidated statements of comprehensive income

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Profit attributable to the equity shareholders of HEC . . . . .</b>	<u>4,619,529</u>	<u>4,479,535</u>	<u>4,541,678</u>	<u>3,436,141</u>	<u>3,563,312</u>
<b>Other comprehensive income for the year/period, net of tax</b>					
<b>Items that may be reclassified subsequently to profit or loss</b>					
Cash flow hedges:					
Effective portion of changes in fair value of hedging instruments recognised during the year/period . . . . .	18,885	9,106	17,961	55,566	6,503
Reclassification adjustments for amounts transferred to profit or loss . . . . .	195	(824)	(1,811)	462	—
Amounts transferred to initial carrying amount of hedged items . . . . .	(2,882)	(22,457)	(7,734)	(5,103)	6,352
Net deferred tax (charged)/credited to other comprehensive income . . . . .	<u>(2,673)</u>	<u>2,339</u>	<u>(1,389)</u>	<u>(8,403)</u>	<u>(2,121)</u>
	<u>13,525</u>	<u>(11,836)</u>	<u>7,027</u>	<u>42,522</u>	<u>10,734</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>					
Defined benefit retirement schemes:					
Remeasurement of net defined benefit obligations . . . . .	380,764	(856,219)	(124,532)	(362,203)	693,874
Deferred tax credited/(charged) to other comprehensive income . . .	—	141,276	130,778	169,993	(114,489)
	<u>380,764</u>	<u>(714,943)</u>	<u>6,246</u>	<u>(192,210)</u>	<u>579,385</u>
	<u>394,289</u>	<u>(726,779)</u>	<u>13,273</u>	<u>(149,688)</u>	<u>590,119</u>
<b>Total comprehensive income for the year/period attributable to the equity shareholders of HEC . . . . .</b>	<u>5,013,818</u>	<u>3,752,756</u>	<u>4,554,951</u>	<u>3,286,453</u>	<u>4,153,431</u>

The accompanying notes form part of the Financial Information.

## 3 Consolidated balance sheets

	Section B Note	At 31 December			At 30
		2010	2011	2012	September
		HK\$'000	HK\$'000	HK\$'000	2013 HK\$'000
<b>Non-current assets</b>					
Fixed assets					
- Property, plant and equipment . . .		43,585,103	43,776,231	44,455,207	43,899,825
- Assets under construction . . . . .		2,238,323	2,976,141	2,852,140	3,022,555
- Interests in leasehold land held for own use under finance leases. . . . .		<u>2,152,815</u>	<u>2,095,629</u>	<u>2,038,248</u>	<u>2,019,999</u>
	14	47,976,241	48,848,001	49,345,595	48,942,379
Employee retirement benefit scheme assets . . . . .	26	796,397	271,233	215,721	470,461
Derivative financial instruments . . .	24	<u>20,646</u>	<u>432,537</u>	<u>645,669</u>	<u>299,628</u>
		48,793,284	49,551,771	50,206,985	49,712,468
<b>Current assets</b>					
Inventories . . . . .	16	746,939	1,115,081	1,114,511	990,318
Trade and other receivables . . . . .	17	1,118,012	1,078,066	1,182,909	1,668,968
Amounts due from fellow subsidiaries. . . . .	20(c)	1,725	5,586	5,463	5,491
Fuel Clause Recovery Account . . .	18	569,485	1,035,209	819,781	—
Cash and bank balances . . . . .		<u>8,728</u>	<u>23,840</u>	<u>7,649</u>	<u>7,825</u>
		<u>2,444,889</u>	<u>3,257,782</u>	<u>3,130,313</u>	<u>2,672,602</u>
<b>Current liabilities</b>					
Medium term notes. . . . .	19	—	(501,847)	—	—
Amount due to a fellow subsidiary. .	20(c)	(10,225)	(10,225)	—	—
Current portion of bank loans . . . .	21	(50,000)	(115,000)	(5,310,488)	(792,000)
Bank overdrafts - unsecured . . . . .		(1,685)	—	(5,931)	(6,022)
Trade and other payables . . . . .	22	(1,569,364)	(2,559,892)	(2,310,404)	(1,931,246)
Fuel Clause Recovery Account . . .	18	—	—	—	(1,893)
Current taxation . . . . .	23(a)	<u>(156,665)</u>	<u>(218,234)</u>	<u>(330,005)</u>	<u>(912,495)</u>
		<u>(1,787,939)</u>	<u>(3,405,198)</u>	<u>(7,956,828)</u>	<u>(3,643,656)</u>
<b>Net current assets/(liabilities) . . .</b>		<u>656,950</u>	<u>(147,416)</u>	<u>(4,826,515)</u>	<u>(971,054)</u>
<b>Total assets less current liabilities . . . . .</b>		<u>49,450,234</u>	<u>49,404,355</u>	<u>45,380,470</u>	<u>48,741,414</u>

	Section B Note	At 31 December			At 30
		2010	2011	2012	September
		HK\$'000	HK\$'000	HK\$'000	2013 HK\$'000
<b>Non-current liabilities</b>					
Loan from ultimate holding company . . . . .	20(a)	(13,190,218)	(11,533,462)	(10,723,660)	(13,265,879)
Medium term notes . . . . .	19	(7,542,595)	(10,161,423)	(11,169,265)	(11,518,566)
Bank loans . . . . .	21	(4,993,988)	(4,996,238)	—	(1,500,000)
Derivative financial instruments . . . . .	24	(131,778)	(10,019)	(302)	—
Customers' deposits . . . . .		(1,747,607)	(1,801,353)	(1,838,963)	(1,880,851)
Deferred tax liabilities . . . . .	23(b)	(5,762,500)	(5,882,629)	(5,911,283)	(5,943,701)
Employee retirement benefit scheme liabilities . . . . .	26	(587,207)	(826,809)	(821,085)	(413,335)
		<u>(33,955,893)</u>	<u>(35,211,933)</u>	<u>(30,464,558)</u>	<u>(34,522,332)</u>
<b>Tariff Stabilisation Fund . . . . .</b>	10(a)	<u>(542,751)</u>	<u>(496,698)</u>	<u>(424,729)</u>	<u>(189,728)</u>
<b>Rate Reduction Reserve . . . . .</b>	10(b)	<u>(4,172)</u>	<u>(1,222)</u>	<u>(2,632)</u>	<u>(2,986)</u>
<b>NET ASSETS . . . . .</b>		<u>14,947,418</u>	<u>13,694,502</u>	<u>14,488,551</u>	<u>14,026,368</u>
<b>CAPITAL AND RESERVES</b>					
Share capital . . . . .	28(b)	2,411,600	2,411,600	2,411,600	2,411,600
Reserves . . . . .		3,690,818	2,437,902	3,231,951	2,769,768
		6,102,418	4,849,502	5,643,551	5,181,368
Loan capital . . . . .	28(c)	8,845,000	8,845,000	8,845,000	8,845,000
<b>TOTAL EQUITY . . . . .</b>		<u>14,947,418</u>	<u>13,694,502</u>	<u>14,488,551</u>	<u>14,026,368</u>

The accompanying notes form part of the Financial Information.

## 4 Balance sheets of HEC

	Section B Note	At 31 December			At 30 September
		2010	2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Fixed assets . . . . .					
- Property, plant and equipment . .		43,585,103	43,776,231	44,455,207	43,899,825
- Assets under construction . . . . .		2,238,323	2,976,141	2,852,140	3,022,555
- Interests in leasehold land held for own use under finance leases . . . . .		<u>2,152,815</u>	<u>2,095,629</u>	<u>2,038,248</u>	<u>2,019,999</u>
	14	47,976,241	48,848,001	49,345,595	48,942,379
Investment in a subsidiary . . . . .	15	—	—	—	—
Employee retirement benefit scheme assets . . . . .	26	796,397	271,233	215,721	470,461
Derivative financial instruments . . .	24	<u>20,646</u>	<u>432,537</u>	<u>645,669</u>	<u>299,628</u>
		<u>48,793,284</u>	<u>49,551,771</u>	<u>50,206,985</u>	<u>49,712,468</u>
<b>Current assets</b>					
Inventories . . . . .	16	746,939	1,115,081	1,114,511	990,318
Trade and other receivables . . . . .	17	1,118,012	1,078,066	1,182,909	1,668,968
Amounts due from fellow subsidiaries . . . . .	20(c)	1,725	5,586	5,463	5,491
Fuel Clause Recovery Account . . .	18	569,485	1,035,209	819,781	—
Cash and bank balances . . . . .		<u>8,728</u>	<u>23,840</u>	<u>7,649</u>	<u>7,825</u>
		<u>2,444,889</u>	<u>3,257,782</u>	<u>3,130,313</u>	<u>2,672,602</u>
<b>Current liabilities</b>					
Loan from a subsidiary . . . . .	20(b)	—	(501,847)	—	—
Amount due to a subsidiary . . . . .	20(c)	(33,010)	(40,901)	(40,495)	(100,935)
Amount due to a fellow subsidiary .	20(c)	(10,225)	(10,225)	—	—
Current portion of bank loans . . . .	21	(50,000)	(115,000)	(5,310,488)	(792,000)
Bank overdrafts - unsecured . . . . .		(1,685)	—	(5,931)	(6,022)
Trade and other payables . . . . .	22	(1,536,354)	(2,518,991)	(2,269,909)	(1,830,311)
Fuel Clause Recovery Account . . .	18	—	—	—	(1,893)
Current taxation . . . . .	23(a)	<u>(156,665)</u>	<u>(218,234)</u>	<u>(330,005)</u>	<u>(912,495)</u>
		<u>(1,787,939)</u>	<u>(3,405,198)</u>	<u>(7,956,828)</u>	<u>(3,643,656)</u>
<b>Net current assets/(liabilities) . . .</b>		<u>656,950</u>	<u>(147,416)</u>	<u>(4,826,515)</u>	<u>(971,054)</u>
<b>Total assets less current liabilities . . . . .</b>					
		<u>49,450,234</u>	<u>49,404,355</u>	<u>45,380,470</u>	<u>48,741,414</u>



	Section B Note	At 31 December			At 30 September
		2010	2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current liabilities</b>					
Loan from ultimate holding company . . . . .	20(a)	(13,190,218)	(11,533,462)	(10,723,660)	(13,265,879)
Loan from a subsidiary . . . . .	20(b)	(7,542,595)	(10,161,423)	(11,169,265)	(11,518,566)
Bank loans . . . . .	21	(4,993,988)	(4,996,238)	—	(1,500,000)
Derivative financial instruments . . . . .	24	(131,778)	(10,019)	(302)	—
Customers' deposits . . . . .		(1,747,607)	(1,801,353)	(1,838,963)	(1,880,851)
Deferred tax liabilities . . . . .	23(b)	(5,762,500)	(5,882,629)	(5,911,283)	(5,943,701)
Employee retirement benefit scheme liabilities . . . . .	26	(587,207)	(826,809)	(821,085)	(413,335)
		<u>(33,955,893)</u>	<u>(35,211,933)</u>	<u>(30,464,558)</u>	<u>(34,522,332)</u>
<b>Tariff Stabilisation Fund . . . . .</b>	10(a)	<u>(542,751)</u>	<u>(496,698)</u>	<u>(424,729)</u>	<u>(189,728)</u>
<b>Rate Reduction Reserve . . . . .</b>	10(b)	<u>(4,172)</u>	<u>(1,222)</u>	<u>(2,632)</u>	<u>(2,986)</u>
<b>NET ASSETS . . . . .</b>		<u>14,947,418</u>	<u>13,694,502</u>	<u>14,488,551</u>	<u>14,026,368</u>
<b>CAPITAL AND RESERVES</b>					
Share capital . . . . .	28(b)	2,411,600	2,411,600	2,411,600	2,411,600
Reserves . . . . .		3,690,818	2,437,902	3,231,951	2,769,768
		6,102,418	4,849,502	5,643,551	5,181,368
Loan capital . . . . .	28(c)	8,845,000	8,845,000	8,845,000	8,845,000
<b>TOTAL EQUITY . . . . .</b>		<u>14,947,418</u>	<u>13,694,502</u>	<u>14,488,551</u>	<u>14,026,368</u>

The accompanying notes form part of the Financial Information.

## 5 Consolidated statements of changes in equity

	Attributable to the equity shareholders of HEC					
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	Total
	(note 28(b)) HK\$'000	(note 28(d)) HK\$'000	HK\$'000	(note 13) HK\$'000	(note 28(c)) HK\$'000	HK\$'000
<b>Balance at 1 January 2010</b> . . . . .	2,411,600	(5,379)	5,379	4,196,091	8,845,000	15,452,691
<b>Changes in equity for 2010:</b>						
Profit attributable to the equity shareholders . . . . .	—	—	4,619,529	—	—	4,619,529
Other comprehensive income . . . . .	—	13,525	380,764	—	—	394,289
Total comprehensive income for the year . . . . .	—	13,525	5,000,293	—	—	5,013,818
Final dividend in respect of the previous year approved and paid (see note 13(b)) . . . . .	—	—	—	(4,196,091)	—	(4,196,091)
Interim dividend paid (see note 13(a)) . . . . .	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a)) . . . . .	—	—	(3,682,672)	3,682,672	—	—
<b>Balance at 31 December 2010 and 1 January 2011</b> . . . . .	2,411,600	8,146	—	3,682,672	8,845,000	14,947,418
<b>Changes in equity for 2011:</b>						
Profit attributable to the equity shareholders . . . . .	—	—	4,479,535	—	—	4,479,535
Other comprehensive income . . . . .	—	(11,836)	(714,943)	—	—	(726,779)
Total comprehensive income for the year . . . . .	—	(11,836)	3,764,592	—	—	3,752,756
Final dividend in respect of the previous year approved and paid (see note 13(b)) . . . . .	—	—	—	(3,682,672)	—	(3,682,672)
Interim dividend paid (see note 13(a)) . . . . .	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a)) . . . . .	—	—	(2,437,902)	2,437,902	—	—
<b>Balance at 31 December 2011 and 1 January 2012</b> . . . . .	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
<b>Changes in equity for 2012:</b>						
Profit attributable to the equity shareholders . . . . .	—	—	4,541,678	—	—	4,541,678
Other comprehensive income . . . . .	—	7,027	6,246	—	—	13,273
Total comprehensive income for the year . . . . .	—	7,027	4,547,924	—	—	4,554,951
Final dividend in respect of the previous year approved and paid (see note 13(b)) . . . . .	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a)) . . . . .	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a)) . . . . .	—	—	(3,228,614)	3,228,614	—	—
<b>Balance at 31 December 2012</b> . . . . .	<u>2,411,600</u>	<u>3,337</u>	<u>—</u>	<u>3,228,614</u>	<u>8,845,000</u>	<u>14,488,551</u>

	Attributable to the equity shareholders of HEC					
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	Total
	(note 28(b)) HK\$'000	(note 28(d)) HK\$'000	HK\$'000	(note 13) HK\$'000	(note 28(c)) HK\$'000	HK\$'000
<b>Balance at 1 January 2013</b> . . . . .	2,411,600	3,337	—	3,228,614	8,845,000	14,488,551
<b>Changes in equity for the nine months ended 30 September 2013:</b>						
Profit attributable to the equity shareholders . . . . .	—	—	3,563,312	—	—	3,563,312
Other comprehensive income . . . . .	—	10,734	579,385	—	—	590,119
Total comprehensive income for the period . . . . .	—	10,734	4,142,697	—	—	4,153,431
Final dividend in respect of the previous year approved and paid (see note 13(b)) . . . . .	—	—	—	(3,228,614)	—	(3,228,614)
Interim dividend paid (see note 13(a)) . . . . .	—	—	(1,387,000)	—	—	(1,387,000)
<b>Balance at 30 September 2013</b> . . . . .	<u>2,411,600</u>	<u>14,071</u>	<u>2,755,697</u>	<u>—</u>	<u>8,845,000</u>	<u>14,026,368</u>
<b>Unaudited</b>						
<b>Balance at 1 January 2012</b> . . . . .	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
<b>Changes in equity for the nine months ended 30 September 2012:</b>						
Profit attributable to the equity shareholders . . . . .	—	—	3,436,141	—	—	3,436,141
Other comprehensive income . . . . .	—	42,522	(192,210)	—	—	(149,688)
Total comprehensive income for the period . . . . .	—	42,522	3,243,931	—	—	3,286,453
Final dividend in respect of the previous year approved and paid (see note 13(b)) . . . . .	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a)) . . . . .	—	—	(1,323,000)	—	—	(1,323,000)
<b>Balance at 30 September 2012</b> . . . . .	<u>2,411,600</u>	<u>38,832</u>	<u>1,924,621</u>	<u>—</u>	<u>8,845,000</u>	<u>13,220,053</u>

The accompanying notes form part of the Financial Information.

## 6 Consolidated cash flow statements

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2010	2011	2012	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
<b>Operating activities</b>						
Cash generated from operations . . . . .	27	7,661,423	7,319,726	7,603,253	5,803,441	6,327,129
Interest received . . . . .		268	85	274	265	18
Interest paid . . . . .		(156,789)	(314,498)	(292,748)	(221,893)	(230,117)
Hong Kong Profits Tax paid . . . . .		(877,647)	(563,542)	(621,104)	(171,983)	(162,437)
Rate Reduction Reserve rebated . . . . .		(10,924)	(3,972)	—	—	—
<b>Net cash generated from operating activities . . . . .</b>		<b>6,616,331</b>	<b>6,437,799</b>	<b>6,689,675</b>	<b>5,409,830</b>	<b>5,934,593</b>
<b>Investing activities</b>						
Purchase of fixed assets and capital stock . . . . .		(2,235,951)	(2,477,610)	(2,604,969)	(2,075,308)	(1,537,908)
Capitalised interest paid . . . . .		(51,668)	(55,017)	(72,608)	(58,338)	(47,110)
Proceeds from disposal of fixed assets . . . . .		3,979	937	1,866	1,155	2,019
<b>Net cash used in investing activities . . . . .</b>		<b>(2,283,640)</b>	<b>(2,531,690)</b>	<b>(2,675,711)</b>	<b>(2,132,491)</b>	<b>(1,582,999)</b>
<b>Financing activities</b>						
(Decrease)/increase in loan from ultimate holding company . . . . .		(3,671,908)	(1,656,756)	(809,802)	(265,728)	2,542,219
Proceeds from issuance of medium term notes . . . . .		4,659,151	2,654,325	800,000	800,000	700,000
Redemption of medium term notes . . . . .		—	—	(500,000)	(500,000)	—
Proceeds from new bank loans . . . . .		50,000	65,000	197,000	425,000	1,980,000
Repayment of bank loans . . . . .		—	—	—	—	(5,000,000)
New customers' deposits . . . . .		304,557	276,651	278,302	206,753	200,949
Repayment of customers' deposits . . . . .		(233,459)	(222,905)	(240,692)	(179,682)	(159,061)
Dividends paid . . . . .		(5,519,091)	(5,005,672)	(3,760,902)	(3,760,902)	(4,615,614)
<b>Net cash used in financing activities . . . . .</b>		<b>(4,410,750)</b>	<b>(3,889,357)</b>	<b>(4,036,094)</b>	<b>(3,274,559)</b>	<b>(4,351,507)</b>

Section B Note	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
<b>(Decrease)/increase in cash and cash equivalents . . . . .</b>	(78,059)	16,752	(22,130)	2,780	87
<b>Cash and cash equivalents at 1 January . . . . .</b>	91,859	7,043	23,840	23,840	1,718
<b>Effect of foreign exchange rate changes . . . . .</b>	(6,757)	45	8	(10)	(2)
<b>Cash and cash equivalents at 31 December/ 30 September . . . . .</b>	<u>7,043</u>	<u>23,840</u>	<u>1,718</u>	<u>26,610</u>	<u>1,803</u>
<b>Analysis of the balances of cash and cash equivalents</b>					
Cash and bank balances . .	8,728	23,840	7,649	26,610	7,825
Bank overdrafts - unsecured . . . . .	(1,685)	—	(5,931)	—	(6,022)
	<u>7,043</u>	<u>23,840</u>	<u>1,718</u>	<u>26,610</u>	<u>1,803</u>

The accompanying notes form part of the Financial Information.

**B NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION****1 Significant accounting policies****(a) General and Basis of preparation**

Pursuant to the reorganisation of HK Electric Investments Limited (the "Company") and its subsidiaries (including the Acquisition (as defined below)) in anticipation for the listing of share stapled units of HK Electric Investments (the "Trust") and the Company (together, the "Trust Group") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Reorganisation"), The Hongkong Electric Company, Limited ("HEC") and its subsidiary, Hongkong Electric Finance Limited ("HEFL") (collectively referred to as the "Operating Group"), which are wholly owned subsidiaries of Power Assets Holdings Limited ("PAH") will be acquired by the Company via its indirect wholly owned subsidiary, Treasure Business Limited in consideration for cash and share stapled units to be issued by the Trust and the Company (the "Acquisition"). PAH is a company incorporated in Hong Kong with its shares listed on the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States.

Neither the Trust nor the Company has carried on any business since the dates of their respective establishment/incorporation and neither are expected to carry on any business up to the date of completion of the Acquisition which is the same date as the date of the Listing. The Company does not have any material assets or liabilities and will have incurred an insignificant amount of expenses in connection with the Acquisition and the Listing up to the date of the Listing.

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Operating Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2013 are set out in note 35.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the nine months ended 30 September 2012 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

**(b) Basis of presentation**

The Financial Information comprises HEC and its subsidiary.

At the date of this report and during the Relevant Periods, the particulars of the companies comprising the Operating Group, both of which are companies incorporated with limited liability, are as follows:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Date of incorporation</u>	<u>Issued share capital</u>	<u>Interest held by PAH during the Relevant Periods and at the date of this report</u>	<u>Principal activity</u>
HEC . . . . .	Hong Kong	24 January 1889	HK\$2,411,600,000	100% (direct)	Generation and supply of electricity to Hong Kong Island and Lamma Island
HEFL . . . . .	The British Virgin Islands	12 April 2000	US\$1	100% (indirect)	Financing

The statutory financial statements of HEC for each of the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and were audited by KPMG in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") under separate engagements.

There are no statutory requirements to prepare financial statements for companies incorporated in the British Virgin Islands. The non-statutory financial statements of HEFL for each of the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with HKFRSs and were audited by KPMG in accordance with HKSA issued by the HKICPA under separate engagements.

**(c) Basis of measurement**

The Financial Information is presented in Hong Kong dollars ("HK\$") rounded to the nearest thousand, except as otherwise stated herein. It is prepared on the historical cost basis except as set out in the accounting policies hereunder.

**(d) Going concern**

The Financial Information has been prepared assuming the Operating Group will continue as a going concern notwithstanding the net current liabilities of the Operating Group at 30 September 2013.

At 30 September 2013, the Operating Group and HEC recorded net current liabilities of HK\$971,054,000 which included the current portion of bank loans of HK\$792,000,000. The Operating Group and HEC had undrawn committed bank facilities of HK\$3,770,000,000 at 30 September 2013, of which, HK\$2,770,000,000 was available for a period longer than one year which together with strong cash flows, will enable the Operating Group and HEC to return to a net current assets position in near future. In light of the foregoing, the Financial Information has been prepared on a going concern basis.

(e) ***Use of estimates and judgements***

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 34.

(f) ***Subsidiaries***

Subsidiaries are entities controlled by the Operating Group. The Operating Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Operating Group has power, only substantive rights (held by the Operating Group and other parties) are considered.

The financial information of the subsidiaries is included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Operating Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Operating Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In HEC's balance sheet, the investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).



(g) **Fixed assets, depreciation and amortisation**

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)(vii)), amortisation (see note 1(g)(vi)) and impairment losses (see note 1(i)).
- (ii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).
- (iii) Where parts of a fixed asset have different useful lives, the cost of the fixed asset is allocated on a reasonable basis between the parts and each part is depreciated separately. 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 the Operating Group and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.
- (v) Interests in leasehold land held for own use under finance leases are stated in the balance sheet at cost less accumulated amortisation (see note 1(g)(vi)) and impairment losses (see note 1(i)).
- (vi) The cost of acquiring land held under finance leases is amortised on a straight-line basis over the period of the unexpired lease terms.
- (vii) Depreciation is calculated to write off the cost of fixed assets less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Cable tunnels . . . . .	100 years
— Buildings . . . . .	60 years
— Ash lagoon and gas pipeline . . . . .	60 years
— Transmission and distribution equipment, overhead lines and cables . . . . .	60 years
— Generating plant and machinery . . . . .	35 years
— Gas turbines and gas turbine combined cycle . . . . .	30 years
— Mechanical meters . . . . .	30 years
— Photovoltaic systems . . . . .	25 years
— Wind turbines . . . . .	20 years
— Electronic meters, microwave and optical fibre equipment and trunk radio systems . . . . .	15 years
— Furniture and fixtures, sundry plant and equipment . . . . .	10 years
— Computers . . . . .	5 to 10 years
— Motor vehicles and marine craft . . . . .	5 to 6 years
— Workshop tools and office equipment . . . . .	5 years

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) ***Leased assets and operating lease charges***

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Operating Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Operating Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(i) ***Impairment of assets***

(i) *Impairment of investment in a subsidiary, trade and other receivables and other financial assets*

Investment in a subsidiary, trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Operating Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in a subsidiary recognised at cost, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).

- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. For financial assets carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets including assets under construction may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) **Short term employee benefits**

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(k) **Retirement scheme obligations**

- (i) The Operating Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on Hong Kong Special Administrative Region Government Exchange Fund Notes that have maturity dates approximating the terms of the Operating Group's obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in revenue reserve and will not be reclassified to profit or loss.

The Operating Group determines the net interest expense or income for the period on the net defined benefit liability or asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset at the beginning of the annual period, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Where the calculation of the Operating Group's net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised past service costs and the present value of any future refunds from the schemes or reductions in future contributions to the schemes.

- (ii) Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(l) **Inventories**

Coal, stores, fuel oil and natural gas are valued at cost measured on a weighted average basis.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories recognised as an expense includes the write-off and all losses of inventories.

(m) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 1(q)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

For fixed interest borrowings that are designated as hedged items in fair value hedges, fair value changes that are attributable to the hedged risk are recognised in profit or loss (see note 1(q)(i)).

(o) ***Trade and other payables***

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) ***Derivative financial instruments***

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(q)).

(q) ***Hedging***

(i) ***Fair value hedges***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) ***Cash flow hedges***

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Operating Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(r) ***Revenue recognition***

(i) *Regulation of earnings under the Scheme of Control Agreement*

The earnings of HEC are regulated by the Hong Kong SAR Government (“the Government”) under a Scheme of Control Agreement (“SoCA”) which provides for a permitted level of earnings based principally on a return on HEC’s capital investment in electricity generation, transmission and distribution assets (the “Permitted Return”). The SoCA also provides for performance-based incentives and penalties which encourage emission reduction, customer service quality, energy efficiency and the use of renewable energy. The Net Return of HEC under the SoCA is determined by deducting from the Permitted Return interest and excess capacity adjustments, if any, and adjusting for the abovementioned incentives and penalties. HEC is required to submit detailed Development Plans for approval by the Executive Council of the Government which project the key determinants of the Net Return to which HEC will be entitled over the Development Plan period.

The Government has approved the Development Plan covering the period from 2009 to 2013. No further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) *Fuel Clause Recovery Account*

Under the SoCA, any difference between the standard cost of fuel, as agreed with the Government, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account (“Fuel Cost Account Adjustments”).

Fuel Clause Charges (or Rebates) are charged (or given) to customers by adding to (or deducting from) the Basic Tariff to produce a Net Tariff payable by customers and are credited (or debited) to the Fuel Clause Recovery Account.

The balance on the Fuel Clause Recovery Account at the end of a financial year represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates. Any debit balance is carried forward as a deferred receivable to be recovered from Fuel Clause Charges and/or Fuel Cost Account Adjustments and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Rebates and/or Fuel Cost Account Adjustments.

Fuel Clause Charges or Rebates are utilised to smooth increases in Net Tariffs paid by customers. The impact of tariff smoothing is to reduce the Net Tariffs payable by customers in certain years and increase the Net Tariffs in other years. However, the tariff smoothing has no impact on HEC's total earnings and the related balance on the Fuel Clause Recovery Account is expected to be recovered by Fuel Clause Charges and/or Fuel Cost Account Adjustments.

(iii) *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, which is the unit charge agreed with the Government during the Annual Tariff Review for each financial year.

Electricity-related income is recognised when the related services are rendered.

Interest income is recognised on a time apportioned basis using the effective interest method.

(s) *Translation of foreign currencies*

The Financial Information is presented in Hong Kong dollars which is HEC's functional currency and the Operating Group's and HEC's presentation currency.

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates, or at contract rates if foreign currencies are hedged by forward foreign exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date.

Exchange gains and losses in respect of fixed assets under construction are, up to the date of commissioning, incorporated in the cost of the assets. All other exchange differences are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(t) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into

known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Operating Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(u) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

(v) **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 the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.



(w) ***Financial guarantees issued, provisions and contingent liabilities***

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in profit or loss.

(ii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Operating Group or HEC has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) ***Related parties***

(a) A person or a close member of that person's family is related to the Operating Group if that person:

- (i) has control or joint control over the Operating Group;
- (ii) has significant influence over the Operating Group; or
- (iii) is a member of the key management personnel of the Operating Group or the Operating Group's parent.

(b) An entity is related to the Operating Group if any of the following conditions apply:

- (i) The entity and the Operating Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Operating Group or an entity related to the Operating Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (x)(a).
- (vii) A person identified in (x)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Operating Group for the purposes of resource allocation and performance assessment. Accordingly, the Operating Group's aggregated operating segments are based on their principal activities and geographical regions to present the reportable segments.

**2 Turnover**

The principal activity of the Operating Group is the generation and supply of electricity to Hong Kong Island and Lamma Island.

Turnover is analysed as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of electricity . . . . .	10,337,644	10,140,054	10,363,713	8,044,730	7,871,141
Concessionary discount on sales of electricity . . . . .	(6,008)	(6,470)	(6,890)	(5,229)	(4,910)
Electricity-related income . . .	31,362	51,206	42,778	21,952	19,237
	<u>10,362,998</u>	<u>10,184,790</u>	<u>10,399,601</u>	<u>8,061,453</u>	<u>7,885,468</u>

The Operating Group's customer base is diversified and does not have customer with whom transactions have exceeded 10% of the Operating Group's turnover during the Relevant Periods.

**3 Segment reporting**

The Operating Group has one reporting segment which is the generation and supply of electricity to Hong Kong Island and Lamma Island. All segment assets are located in Hong Kong. The Operating Group's chief operating decision-maker reviews the consolidated results of the Operating Group for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

#### 4 Standard fuel costs

Standard fuel costs represent the standard cost of fuel as agreed with the Government including the actual fuel costs and Fuel Cost Account Adjustments as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Actual fuel costs . . . . .	4,570,768	5,538,396	5,672,861	4,357,743	3,880,490
Fuel Cost Account Adjustments (see note 18).	(2,794,745)	(3,754,956)	(3,867,255)	(2,953,389)	(2,519,656)
Standard fuel costs . . . . .	<u>1,776,023</u>	<u>1,783,440</u>	<u>1,805,606</u>	<u>1,404,354</u>	<u>1,360,834</u>

#### 5 Other revenue and other net income

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Net profit on sale of fixed assets . . . . .	3,071	818	273	823	1,892
Interest income from financial assets not at fair value through profit or loss . . . . .	268	85	274	265	18
Sundry income . . . . .	<u>30,860</u>	<u>49,481</u>	<u>31,575</u>	<u>24,951</u>	<u>20,493</u>
	<u>34,199</u>	<u>50,384</u>	<u>32,122</u>	<u>26,039</u>	<u>22,403</u>

## 6 Directors' remuneration of HEC

*Year ended 31 December 2010*

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fok Kin Ning, Canning . . . . .	—	652	—	—	652
Wan Chi Tin . . . . .	—	7	—	—	7
Chow Woo Mo Fong, Susan . . . . .	—	85	—	—	85
Andrew John Hunter . . . . .	—	32	—	—	32
Kam Hing Lam . . . . .	—	50	—	—	50
Li Tzar Kuoi, Victor . . . . .	—	498	—	—	498
Frank John Sixt . . . . .	—	66	—	—	66
Yuen Sui See . . . . .	—	3,552	712	1,800	6,064
Tso Kai Sum . . . . .	—	40	—	—	40
Ronald Joseph Arculli . . . . .	—	51	—	—	51
Holger Kluge . . . . .	—	—	—	—	—
Lee Lan Yee, Francis . . . . .	—	21	—	—	21
George Colin Magnus . . . . .	—	31	—	—	31
Neil Douglas McGee . . . . .	—	—	—	—	—
Ralph Raymond Shea . . . . .	—	35	—	—	35
Wong Chung Hin . . . . .	—	79	—	—	79
<b>Total</b> . . . . .	<u>—</u>	<u>5,199</u>	<u>712</u>	<u>1,800</u>	<u>7,711</u>

*Year ended 31 December 2011*

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fok Kin Ning, Canning . . . . .	—	750	—	—	750
Wan Chi Tin . . . . .	—	7	—	—	7
Chow Woo Mo Fong, Susan . . . . .	—	83	—	—	83
Andrew John Hunter . . . . .	—	31	—	—	31
Kam Hing Lam . . . . .	—	48	—	—	48
Li Tzar Kuoi, Victor . . . . .	—	495	—	—	495
Frank John Sixt . . . . .	—	65	—	—	65
Yuen Sui See . . . . .	—	3,365	12	1,800	5,177
Tso Kai Sum . . . . .	—	39	—	—	39
Ronald Joseph Arculli . . . . .	—	50	—	—	50
Holger Kluge . . . . .	—	—	—	—	—
Lee Lan Yee, Francis . . . . .	—	21	—	—	21
George Colin Magnus . . . . .	—	27	—	—	27
Neil Douglas McGee . . . . .	—	—	—	—	—
Ralph Raymond Shea . . . . .	—	30	—	—	30
Wong Chung Hin . . . . .	—	71	—	—	71
<b>Total</b> . . . . .	<u>—</u>	<u>5,082</u>	<u>12</u>	<u>1,800</u>	<u>6,894</u>

*Year ended 31 December 2012*

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fok Kin Ning, Canning . . . . .	—	756	—	—	756
Wan Chi Tin . . . . .	—	6	—	—	6
Chan Loi Shun (note (a)) . . . . .	—	5	—	—	5
Chow Woo Mo Fong, Susan . . . . .	—	82	—	—	82
Andrew John Hunter . . . . .	—	32	—	—	32
Kam Hing Lam . . . . .	—	34	—	—	34
Li Tzar Kuoi, Victor . . . . .	—	524	—	—	524
Frank John Sixt . . . . .	—	76	—	—	76
Yuen Sui See . . . . .	—	3,642	14	2,646	6,302
Tso Kai Sum . . . . .	—	41	—	—	41
Ronald Joseph Arculli . . . . .	—	50	—	—	50
Fong Chi Wai, Alex (note (b)) . . . . .	—	1	—	—	1
Holger Kluge . . . . .	—	—	—	—	—
Lee Lan Yee, Francis . . . . .	—	24	—	—	24
George Colin Magnus . . . . .	—	25	—	—	25
Neil Douglas McGee . . . . .	—	—	—	—	—
Ralph Raymond Shea . . . . .	—	36	—	—	36
Wong Chung Hin . . . . .	—	72	—	—	72
<b>Total</b> . . . . .	<u>—</u>	<u>5,406</u>	<u>14</u>	<u>2,646</u>	<u>8,066</u>

*Nine months ended 30 September 2012 (unaudited)*

Name of directors	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fok Kin Ning, Canning . . . . .	—	570	—	—	570
Wan Chi Tin . . . . .	—	5	—	—	5
Chan Loi Shun (note (a)) . . . . .	—	3	—	—	3
Chow Woo Mo Fong, Susan . . . . .	—	67	—	—	67
Andrew John Hunter . . . . .	—	26	—	—	26
Kam Hing Lam . . . . .	—	28	—	—	28
Li Tzar Kuoi, Victor . . . . .	—	401	—	—	401
Frank John Sixt . . . . .	—	57	—	—	57
Yuen Sui See . . . . .	—	2,736	10	1,417	4,163
Tso Kai Sum . . . . .	—	32	—	—	32
Ronald Joseph Arculli . . . . .	—	40	—	—	40
Holger Kluge . . . . .	—	—	—	—	—
Lee Lan Yee, Francis . . . . .	—	19	—	—	19
George Colin Magnus . . . . .	—	19	—	—	19
Neil Douglas McGee . . . . .	—	—	—	—	—
Ralph Raymond Shea . . . . .	—	28	—	—	28
Wong Chung Hin . . . . .	—	54	—	—	54
<b>Total</b> . . . . .	<u>—</u>	<u>4,085</u>	<u>10</u>	<u>1,417</u>	<u>5,512</u>

*Nine months ended 30 September 2013*

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contributions	Bonuses	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fok Kin Ning, Canning . . . . .	—	599	—	—	599
Wan Chi Tin . . . . .	—	5	—	—	5
Chan Loi Shun . . . . .	—	5	—	—	5
Chow Woo Mo Fong, Susan . . . . .	—	70	—	—	70
Andrew John Hunter . . . . .	—	21	—	—	21
Kam Hing Lam . . . . .	—	25	—	—	25
Li Tzar Kuoi, Victor . . . . .	—	419	—	—	419
Frank John Sixt . . . . .	—	54	—	—	54
Yuen Sui See (note (c)) . . . . .	—	10	—	—	10
Tso Kai Sum . . . . .	—	29	—	—	29
Ronald Joseph Arculli . . . . .	—	42	—	—	42
Fong Chi Wai, Alex . . . . .	—	18	—	—	18
Holger Kluge . . . . .	—	—	—	—	—
Lee Lan Yee, Francis . . . . .	—	17	—	—	17
George Colin Magnus . . . . .	—	21	—	—	21
Neil Douglas McGee . . . . .	—	—	—	—	—
Ralph Raymond Shea . . . . .	—	28	—	—	28
Wong Chung Hin . . . . .	—	55	—	—	55
<b>Total</b> . . . . .	<u>—</u>	<u>1,418</u>	<u>—</u>	<u>—</u>	<u>1,418</u>

*Notes:*

- (a) Appointed as director on 1 June 2012.
- (b) Appointed as director on 5 December 2012.
- (c) Mr. Yuen Sui See was employed by Power Assets Holdings Limited with effect from 1 January 2013.
- (d) During the Relevant Periods, no amount was paid or payable by the Operating Group to the directors or any of the five highest paid individual set out in note 7 below as an inducement to join or upon joining the Operating Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.



## 7 Individuals with highest emoluments

The five highest paid individuals of the Operating Group included one director of HEC for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 whose total emoluments are shown above. The remuneration of the other four individuals for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 who comprises the five highest paid individuals of the Operating Group and the five highest paid individuals of the Operating Group for the nine months ended 30 September 2013 is set out below:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Short-term employee benefits . . . . .	12,047	11,779	12,221	8,971	10,838
Post-employment benefits . . .	2,101	2,152	1,727	1,319	1,502
	<u>14,148</u>	<u>13,931</u>	<u>13,948</u>	<u>10,290</u>	<u>12,340</u>

The total remuneration of senior management, excluding directors, is within the following bands:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	Number	Number	Number	Number (unaudited)	Number
\$500,001 - \$1,000,000 . . . . .	—	—	—	—	—
\$1,000,001 - \$1,500,000 . . . .	—	—	—	—	—
\$1,500,001 - \$2,000,000 . . . .	—	—	—	—	2
\$2,000,001 - \$2,500,000 . . . .	—	—	—	2	1
\$2,500,001 - \$3,000,000 . . . .	1	2	1	1	1
\$3,000,001 - \$3,500,000 . . . .	1	—	1	1	1
\$3,500,001 - \$4,000,000 . . . .	1	1	1	—	—
\$4,000,001 - \$4,500,000 . . . .	<u>1</u>	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>

**8 Profit before taxation**

Profit before taxation is shown after charging/(crediting):

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
<b>(a)</b> Finance costs					
Interest on overdrafts, bank loans and medium term notes repayable within five years . . . . .	91,126	144,106	150,714	106,818	111,236
Interest on bank loans and medium term notes repayable after five years . . . . .	81,104	174,663	202,291	149,010	167,793
Total interest expense arising from financial liabilities not at fair value through profit or loss . . . . .	172,230	318,769	353,005	255,828	279,029
Less: interest capitalised to fixed assets . . .	(42,556)	(50,032)	(67,695)	(50,032)	(49,375)
interest transferred to fuel costs . . . .	(16,817)	(19,577)	(20,400)	(15,237)	(15,028)
	112,857	249,160	264,910	190,559	214,626
<b>(b)</b> Depreciation . . . . .	1,736,005	1,779,414	1,862,207	1,373,382	1,441,132
<b>(c)</b> Amortisation of leasehold land . . . . .	58,030	58,061	58,192	43,801	43,866
<b>(d)</b> Costs of inventories . . .	4,578,351	5,552,115	5,856,950	4,534,378	3,892,852
<b>(e)</b> Staff costs . . . . .	383,073	388,909	432,928	315,466	374,310
<b>(f)</b> Net loss on disposal of fixed assets and fixed assets written off . . . .	42,854	38,222	46,662	14,371	11,930
<b>(g)</b> Auditor's remuneration .	3,513	3,305	3,858	2,618	2,679
<b>(h)</b> Write down of inventories . . . . .	5,144	5,429	5,265	2,929	2,983

Interest expenses have been capitalised at the average rate of approximately 1.7% per annum, 1.9% per annum and 2.0% per annum for the years ended 31 December 2010, 2011 and 2012, respectively and 2.0% per annum (unaudited) and 2.2% per annum for the nine months ended 30 September 2012 and 2013, respectively, for assets under construction.

## 9 Income tax in the consolidated statements of profit or loss

### (a) Taxation in the consolidated statements of profit or loss represents:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
<b>Current tax</b>					
Provision for Hong Kong Profits Tax for the year/ period . . . . .	797,000	625,111	817,318	646,475	744,927
Under/(over)-provision in respect of prior years . . . .	<u>929</u>	<u>—</u>	<u>(84,443)</u>	<u>(67,456)</u>	<u>—</u>
	797,929	625,111	732,875	579,019	744,927
<b>Deferred tax (see note 23(b))</b>					
Reversal and origination of temporary differences . . . .	<u>138,144</u>	<u>263,744</u>	<u>158,043</u>	<u>136,195</u>	<u>(84,192)</u>
	<u>936,073</u>	<u>888,855</u>	<u>890,918</u>	<u>715,214</u>	<u>660,735</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Periods.

Over-provision in respect of prior years for the year ended 31 December 2012 and the nine months ended 30 September 2012 resulted from a change in the Inland Revenue Department's practice in assessing the deductibility of defined benefit retirement scheme expenses.

(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before taxation . . . . .	<u>5,614,734</u>	<u>5,323,359</u>	<u>5,362,037</u>	<u>4,304,794</u>	<u>3,989,400</u>
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5% . . . . .	926,431	878,354	884,736	710,291	658,251
Tax effect of non-deductible expenses . . . . .	13,061	13,088	12,699	10,179	6,986
Tax effect of non-taxable income . . . . .	(2,546)	(1,931)	(2,358)	(1,938)	(4,502)
Tax effect on Rate Reduction Reserve rebated . . . . .	(1,802)	(656)	—	—	—
Tax effect of recognition of previously unrecognised temporary differences . . . .	—	—	80,284	64,138	—
Under/(over)-provision in respect of prior years . . . .	<u>929</u>	<u>—</u>	<u>(84,443)</u>	<u>(67,456)</u>	<u>—</u>
Actual tax expense . . . . .	<u>936,073</u>	<u>888,855</u>	<u>890,918</u>	<u>715,214</u>	<u>660,735</u>

**10 Scheme of control transfers**

The financial operations of HEC are governed by the SoCA agreed with the Government which provides for HEC to earn a Permitted Return (see note 1(r)(i)). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HEC. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In addition, a charge calculated by applying the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HEC to a Rate Reduction Reserve, which amount is subsequently rebated to customers. Movements in the Tariff Stabilisation Fund and Rate Reduction Reserve are as follows:

***The Operating Group and HEC***

	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(a) Tariff Stabilisation Fund</b>				
At 1 January. . . . .	484,551	542,751	496,698	424,729
Transfer from/(to) the consolidated statements of profit or loss . . . . .	<u>58,200</u>	<u>(46,053)</u>	<u>(71,969)</u>	<u>(235,001)</u>
At 31 December/30 September. . . . .	<u>542,751</u>	<u>496,698</u>	<u>424,729</u>	<u>189,728</u>
<b>(b) Rate Reduction Reserve</b>				
At 1 January. . . . .	14,164	4,172	1,222	2,632
Transfer from the consolidated statements of profit or loss . . . . .	932	1,022	1,410	354
Rebate to customers . . . . .	<u>(10,924)</u>	<u>(3,972)</u>	<u>—</u>	<u>—</u>
At 31 December/30 September. . . . .	<u>4,172</u>	<u>1,222</u>	<u>2,632</u>	<u>2,986</u>

**11 Profit attributable to the equity shareholders of HEC**

The consolidated profit attributable to the equity shareholders of HEC includes a profit of HK\$4,619,529,000, HK\$4,479,535,000, HK\$4,541,678,000, HK\$3,436,141,000 (unaudited) and HK\$3,563,312,000 for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively, which has been dealt with in the financial statements of HEC.

**12 Earnings per share**

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of HEC for the years ended 31 December 2010, 2011 and 2012 and for the nine months ended 30 September 2012 and 2013 of HK\$4,619,529,000, HK\$4,479,535,000, HK\$4,541,678,000, HK\$3,436,141,000 (unaudited) and HK\$3,563,312,000, respectively, and 1,205,800,000 ordinary shares in issue throughout the Relevant Periods.

There were no dilutive potential ordinary shares in existence during the Relevant Periods.

**13 Dividends payable to the equity shareholders of HEC attributable to the year/period****(a) Dividends payable to the equity shareholders of HEC attributable to the year/period**

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Interim dividend declared and paid of HK\$1.10 per share for each of the years ended 31 December 2010, 2011 and 2012 and HK\$1.15 per share for the year ending 31 December 2013. . . . .	1,323,000	1,323,000	1,323,000	1,323,000	1,387,000
Final dividend proposed after the balance sheet date of HK\$3.05 per share, HK\$2.02 per share and HK\$2.68 per share for the years ended 31 December 2010, 2011 and 2012, respectively. . . . .	<u>3,682,672</u>	<u>2,437,902</u>	<u>3,228,614</u>	<u>—</u>	<u>—</u>
	<u>5,005,672</u>	<u>3,760,902</u>	<u>4,551,614</u>	<u>1,323,000</u>	<u>1,387,000</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

- (b) *Dividends payable to the equity shareholders of HEC attributable to the previous financial year, approved and paid during the year/period*

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 of HK\$3.48 per share, HK\$3.05 per share, HK\$2.02 per share and HK\$2.02 per share and HK\$2.68 per share, respectively. . . . .	4,196,091	3,682,672	2,437,902	2,437,902	3,228,614

## 14 Fixed assets

*The Operating Group and HEC*

	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>							
At 1 January 2010 . . . . .	13,785,198	56,318,092	834,268	2,540,377	73,477,935	2,815,077	76,293,012
Additions . . . . .	2,442	569,560	61,611	1,791,236	2,424,849	1,931	2,426,780
Disposals . . . . .	(247)	(383,624)	(19,986)	—	(403,857)	(832)	(404,689)
Transfers . . . . .	79,622	1,993,021	20,647	(2,093,290)	—	—	—
At 31 December 2010 . . . . .	13,867,015	58,497,049	896,540	2,238,323	75,498,927	2,816,176	78,315,103
At 1 January 2011 . . . . .	13,867,015	58,497,049	896,540	2,238,323	75,498,927	2,816,176	78,315,103
Additions . . . . .	4,532	763,961	89,741	2,027,776	2,886,010	875	2,886,885
Disposals . . . . .	(148)	(655,577)	(99,131)	—	(754,856)	—	(754,856)
Transfers . . . . .	93,346	1,180,638	15,974	(1,289,958)	—	—	—
At 31 December 2011 . . . . .	13,964,745	59,786,071	903,124	2,976,141	77,630,081	2,817,051	80,447,132
At 1 January 2012 . . . . .	13,964,745	59,786,071	903,124	2,976,141	77,630,081	2,817,051	80,447,132
Additions . . . . .	4,351	581,706	49,637	1,976,404	2,612,098	811	2,612,909
Disposals . . . . .	(822)	(287,723)	(8,094)	—	(296,639)	—	(296,639)
Transfers . . . . .	151,009	1,922,432	26,964	(2,100,405)	—	—	—
At 31 December 2012 . . . . .	14,119,283	62,002,486	971,631	2,852,140	79,945,540	2,817,862	82,763,402
At 1 January 2013 . . . . .	14,119,283	62,002,486	971,631	2,852,140	79,945,540	2,817,862	82,763,402
Additions . . . . .	161	186,715	9,381	970,869	1,167,126	25,617	1,192,743
Disposals . . . . .	—	(214,537)	(9,887)	—	(224,424)	—	(224,424)
Transfers . . . . .	30,069	767,457	2,928	(800,454)	—	—	—
At 30 September 2013 . . . . .	14,149,513	62,742,121	974,053	3,022,555	80,888,242	2,843,479	83,731,721
<b>Accumulated depreciation and amortisation</b>							
At 1 January 2010 . . . . .	4,717,157	22,816,496	630,932	—	28,164,585	605,544	28,770,129
Written back on disposals . . . . .	(149)	(316,400)	(19,528)	—	(336,077)	(213)	(336,290)
Charge for the year . . . . .	243,141	1,553,649	50,203	—	1,846,993	58,030	1,905,023
At 31 December 2010 . . . . .	4,960,149	24,053,745	661,607	—	29,675,501	663,361	30,338,862
At 1 January 2011 . . . . .	4,960,149	24,053,745	661,607	—	29,675,501	663,361	30,338,862
Written back on disposals . . . . .	(112)	(589,296)	(99,495)	—	(688,903)	—	(688,903)
Charge for the year . . . . .	245,608	1,589,142	56,361	—	1,891,111	58,061	1,949,172
At 31 December 2011 . . . . .	5,205,645	25,053,591	618,473	—	30,877,709	721,422	31,599,131



	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012 . . . . .	5,205,645	25,053,591	618,473	—	30,877,709	721,422	31,599,131
Written back on disposals . . . . .	(532)	(204,884)	(7,963)	—	(213,379)	—	(213,379)
Charge for the year. . . . .	248,891	1,660,993	63,979	—	1,973,863	58,192	2,032,055
At 31 December 2012 . . . . .	<u>5,454,004</u>	<u>26,509,700</u>	<u>674,489</u>	<u>—</u>	<u>32,638,193</u>	<u>779,614</u>	<u>33,417,807</u>
At 1 January 2013 . . . . .	5,454,004	26,509,700	674,489	—	32,638,193	779,614	33,417,807
Written back on disposals . . . . .	—	(192,042)	(9,714)	—	(201,756)	—	(201,756)
Charge for the period. . . . .	188,739	1,290,759	49,927	—	1,529,425	43,866	1,573,291
At 30 September 2013 . . . . .	<u>5,642,743</u>	<u>27,608,417</u>	<u>714,702</u>	<u>—</u>	<u>33,965,862</u>	<u>823,480</u>	<u>34,789,342</u>
<b>Net book value</b>							
At 31 December 2010 . . . . .	<u>8,906,866</u>	<u>34,443,304</u>	<u>234,933</u>	<u>2,238,323</u>	<u>45,823,426</u>	<u>2,152,815</u>	<u>47,976,241</u>
At 31 December 2011 . . . . .	<u>8,759,100</u>	<u>34,732,480</u>	<u>284,651</u>	<u>2,976,141</u>	<u>46,752,372</u>	<u>2,095,629</u>	<u>48,848,001</u>
At 31 December 2012 . . . . .	<u>8,665,279</u>	<u>35,492,786</u>	<u>297,142</u>	<u>2,852,140</u>	<u>47,307,347</u>	<u>2,038,248</u>	<u>49,345,595</u>
At 30 September 2013 . . . . .	<u>8,506,770</u>	<u>35,133,704</u>	<u>259,351</u>	<u>3,022,555</u>	<u>46,922,380</u>	<u>2,019,999</u>	<u>48,942,379</u>

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 amounted to HK\$42,556,000, HK\$50,032,000, HK\$67,695,000, HK\$50,032,000 (unaudited) and HK\$49,375,000, respectively.

Leasehold land at 31 December 2010, 2011 and 2012 and 30 September 2013 is held in Hong Kong and comprises long term and medium term leasehold land with carrying values of HK\$42,022,000 and HK\$2,110,793,000, HK\$41,796,000 and HK\$2,053,833,000 and HK\$41,439,000 and HK\$1,996,809,000 and HK\$41,170,000 and HK\$1,978,829,000, respectively.

Depreciation charges for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 included HK\$110,988,000, HK\$111,697,000, HK\$111,656,000, HK\$83,684,000 (unaudited) and HK\$88,293,000, respectively, relating to assets utilised in development activities, which has been capitalised.

## 15 Investment in a subsidiary

HEC

	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$	HK\$	HK\$	HK\$
Unlisted shares, at cost . . . . .	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>

Details of the subsidiary at 31 December 2010, 2011 and 2012 and 30 September 2013 are as follows:

Name of subsidiary	Issued share capital	Percentage of equity held	Place of incorporation/ operation	Principal activity
Hongkong Electric Finance Limited . . .	US\$1	100	British Virgin Islands/ Hong Kong	Financing

The subsidiary has no post-acquisition profits or losses attributable to HEC.

The details of the medium term notes issued by the subsidiary at 31 December 2010, 2011 and 2012 and 30 September 2013 are disclosed in note 19.

## 16 Inventories

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Coal . . . . .	133,143	459,248	411,499	305,217
Fuel oil and natural gas . . . . .	299,941	321,267	352,421	315,611
Stores and materials (see note below) . . . . .	313,855	334,566	350,591	369,490
	<u>746,939</u>	<u>1,115,081</u>	<u>1,114,511</u>	<u>990,318</u>

Included in stores and materials are capital stocks of HK\$212,433,000, HK\$220,620,000, HK\$201,900,000 and HK\$211,947,000 as at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively which was purchased for future maintenance of capital assets.

## 17 Trade and other receivables

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors (see note (a) below) . . . . .	637,503	637,313	689,727	979,389
Other receivables. . . . .	420,232	414,069	457,336	658,608
	1,057,735	1,051,382	1,147,063	1,637,997
Derivative financial instruments - held as cash flow/fair value hedging instruments (see note 24) . . . . .	45,769	15,862	250	1,725
Deposits and prepayments. . . . .	14,508	10,822	35,596	29,246
	<u>1,118,012</u>	<u>1,078,066</u>	<u>1,182,909</u>	<u>1,668,968</u>

All of the trade and other receivables are expected to be recovered within one year.

As at 31 December 2010, 2011 and 2012 and 30 September 2013, other receivables included unbilled electricity charges of HK\$369,675,000, HK\$378,649,000, HK\$404,254,000 and HK\$586,105,000, respectively, to be received from electricity customers.

(a) **Ageing analysis**

The ageing analysis of trade debtors, based on the invoice date, that are neither individually nor collectively considered to be impaired is as follows:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current and within 1 month . . . .	582,385	597,156	650,583	922,410
1 to 3 months . . . . .	36,701	26,159	28,382	46,793
More than 3 months but less than 12 months . . . . .	<u>18,417</u>	<u>13,998</u>	<u>10,762</u>	<u>10,186</u>
Total trade debtors. . . . .	<u>637,503</u>	<u>637,313</u>	<u>689,727</u>	<u>979,389</u>

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% can be added to the electricity bills.

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.

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. The Operating Group and HEC obtain collateral in the form of security deposits or bank guarantees from customers (see note 29(a)) and the balances are considered to be fully recoverable.

(b) **Impairment of trade and other receivables**

The Operating Group's and HEC's trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses. During the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, impairment of trade and other receivables of HK\$1,611,000, HK\$1,599,000, HK\$1,600,000, HK\$1,124,000 (unaudited) and HK\$929,000, respectively, was charged to profit or loss.

**18 Fuel Clause Recovery Account**

	The Operating Group and HEC			
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January. . . . .	551,561	569,485	1,035,209	819,781
Transferred to profit or loss (see note 4) . . . . .	2,794,745	3,754,956	3,867,255	2,519,656
Fuel Clause Charges during the year/period . . . . .	(2,776,821)	(3,289,232)	(4,082,683)	(3,341,330)
At 31 December/30 September . . . . .	<u>569,485</u>	<u>1,035,209</u>	<u>819,781</u>	<u>(1,893)</u>

The Fuel Clause Charges per unit for electricity sales was HK25.4 cents, HK30.2 cents, HK37.0 cents, HK37.0 cents (unaudited) and HK40.2 cents for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively.

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs (see note 1(r)(ii)).

The outstanding amount of Fuel Clause Recovery Account was neither past due nor impaired (see note 1(r)(ii)).

**19 Medium term notes**

The medium term notes ("the Notes") are bearer or registered notes at fixed interest rates issued under a US\$1,000,000,000 medium term note programme entered into by the HEFL ("the issuer"), on 18 December 2002 (revised on 23 November 2004) with various financial institutions. The programme was expanded to US\$2,000,000,000 on 25 July 2006 and further expanded to US\$3,000,000,000 on 9 December 2011 in accordance with the terms of the programme. The Notes are unconditionally and irrevocably guaranteed by HEC.

Interest payments on the Notes will be made without deduction for or on account of taxes of the British Virgin Islands or the Hong Kong Special Administrative Region of the People's Republic of China.

The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands or the Hong Kong Special Administrative Region of the People's Republic of China.

Details and nominal value of the Notes issued are set out below:

		The Operating Group			
		At 31 December			At 30 September
		2010	2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i)	HK\$500 million 4.13% p.a. medium term notes . . . . .	500,000	500,000	500,000	500,000
	<p>Issued on 24 November 2004 at a fixed interest rate of 4.13%. Interest on these notes is payable quarterly in arrears on 24 February, 24 May, 24 August and 24 November in each year. These notes will mature on 24 November 2014.</p>				
(ii)	HK\$500 million 4.15% p.a. medium term notes . . . . .	500,000	500,000	500,000	500,000
	<p>Issued on 13 May 2005 at a fixed interest rate of 4.15%. Interest on these notes is payable quarterly in arrears on 13 February, 13 May, 13 August and 13 November in each year. These notes will mature on 13 May 2015.</p>				
(iii)	HK\$500 million 4.55% p.a. medium term notes . . . . .	500,000	500,000	500,000	500,000
	<p>Issued on 6 November 2006 at a fixed interest rate of 4.55%. Interest on these notes is payable quarterly in arrears on 6 February, 6 May, 6 August and 6 November in each year. These notes will mature on 7 November 2016.</p>				

	The Operating Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(iv) HK\$400 million 4.32% p.a. medium term notes . . . . .	400,000	400,000	400,000	400,000
<p>Issued on 7 December 2006 at a fixed interest rate of 4.32%. Interest on these notes is payable quarterly in arrears on 7 March, 7 June, 7 September and 7 December in each year. These notes will mature on 7 December 2016.</p>				
(v) HK\$500 million 4.32% p.a. medium term notes . . . . .	500,000	500,000	—	—
<p>Issued on 24 January 2007 at a fixed interest rate of 4.32%. Interest on these notes is payable quarterly in arrears on 24 January, 24 April, 24 July and 24 October in each year. These notes matured on 24 January 2012.</p>				
(vi) HK\$330 million 3.28% p.a. medium term notes . . . . .	330,000	330,000	330,000	330,000
<p>Issued on 23 April 2009 at a fixed interest rate of 3.28%. Interest on these notes is payable annually in arrears on 23 April in each year. These notes will mature on 23 April 2019.</p>				

	The Operating Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(vii) HK\$300 million 3.70% p.a. medium term notes . . . . .	300,000	300,000	300,000	300,000
<p>Issued on 29 September 2009 at a fixed interest rate of 3.70%. Interest on these notes is payable quarterly in arrears on 29 March, 29 June, 29 September and 29 December in each year. These notes will mature on 30 September 2024.</p>				
(viii) HK\$470 million 3.95% p.a. medium term notes . . . . .	470,000	470,000	470,000	470,000
<p>Issued on 10 May 2010 at a fixed interest rate of 3.95%. Interest on these notes is payable quarterly in arrears on 10 February, 10 May, 10 August and 10 November in each year. These notes will mature on 10 May 2030.</p>				
(ix) HK\$300 million 3.38% p.a. medium term notes . . . . .	300,000	300,000	300,000	300,000
<p>Issued on 20 August 2010 at a fixed interest rate of 3.38%. Interest on these notes is payable quarterly in arrears on 20 February, 20 May, 20 August and 20 November in each year. These notes will mature on 20 August 2025.</p>				

		The Operating Group			
		At 31 December			At 30 September
		2010	2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
(x)	US\$750 million (2010: US\$500 million) 4.25% p.a. medium term notes . . . . .	3,889,250	5,836,725	5,812,500	5,818,500
	Issued on 14 December 2010 at a fixed interest rate of 4.25%. Interest on these notes is payable semi-annually in arrears on 14 June, 14 December in each year. These notes will mature on 14 December 2020.				
(xi)	HK\$110 million 4.00% p.a. medium term notes . . . . .	—	110,000	110,000	110,000
	Issued on 15 April 2011 at a fixed interest rate of 4.00%. Interest on these notes is payable annually in arrears on 15 April in each year. These notes will mature on 15 April 2031.				
(xii)	HK\$300 million 3.84% p.a. medium term notes . . . . .	—	300,000	300,000	300,000
	Issued on 27 June 2011 at a fixed interest rate of 3.84%. Interest on these notes is payable quarterly in arrears on 27 March, 27 June, 27 September and 27 December in each year. These notes will mature on 27 June 2029.				



	The Operating Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(xiii) HK\$300 million 3.40% p.a. medium term notes . . . . .	—	300,000	300,000	300,000
<p>Issued on 19 December 2011 at a fixed interest rate of 3.40%. Interest on these notes is payable quarterly in arrears on 19 March, 19 June, 19 September and 19 December in each year. These notes will mature on 19 December 2023.</p>				
(xiv) HK\$500 million 3.40% p.a. medium term notes . . . . .	—	—	500,000	500,000
<p>Issued on 16 July 2012 at a fixed interest rate of 3.40%. Interest on these notes is payable quarterly in arrears on 16 January, 16 April, 16 July and 16 October in each year. These notes will mature on 16 July 2027.</p>				
(xv) HK\$300 million 1.65% p.a. medium term notes . . . . .	—	—	300,000	300,000
<p>Issued on 20 September 2012 at a fixed interest rate of 1.65%. Interest on these notes is payable quarterly in arrears on 20 March, 20 June, 20 September and 20 December in each year. These notes will mature on 20 September 2017.</p>				

	The Operating Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(xvi) HK\$500 million 3.10% p.a. medium term notes . . . . .	—	—	—	500,000
Issued on 28 March 2013 at a fixed interest rate of 3.10%. Interest on these notes is payable quarterly in arrears on 28 March, 28 June, 28 September and 28 December in each year. These notes will mature on 28 March 2028.				
(xvii) HK\$200 million 3.00% p.a. medium term notes . . . . .	—	—	—	200,000
Issued on 16 May 2013 at a fixed interest rate of 3.00%. Interest on these notes is payable annually in arrears on 16 May in each year. These notes will mature on 16 May 2028.				
	<u>7,689,250</u>	<u>10,346,725</u>	<u>10,622,500</u>	<u>11,328,500</u>

**20 Loans from ultimate holding company/a subsidiary and amounts due from/to fellow subsidiaries and a subsidiary**

(a) *Loan from ultimate holding company*

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan from ultimate holding company . . . . .	<u>13,190,218</u>	<u>11,533,462</u>	<u>10,723,660</u>	<u>13,265,879</u>

The loan from ultimate holding company, Power Assets Holdings Limited ("PAH"), is unsecured, interest-free and has no fixed terms of repayment but is not expected to be repaid within twelve months of the balance sheet date. However, if the Listing proceeds as anticipated, the loan from ultimate holding company is expected to be repaid on or before the fifth business day following the date on which the share stapled units to be issued by the Trust and the Company (the "Share Stapled Units") are first listed and from which dealing in the Share Stapled Units is permitted to take place on the Main Board of the Stock Exchange (the "Listing Date").

(b) *Loan from a subsidiary*

	HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Current portion</b>				
Loan from a subsidiary. . . . .	—	501,847	—	—
<b>Non-current portion</b>				
Loan from a subsidiary. . . . .	<u>7,542,595</u>	<u>10,161,423</u>	<u>11,169,265</u>	<u>11,518,566</u>
	<u>7,542,595</u>	<u>10,663,270</u>	<u>11,169,265</u>	<u>11,518,566</u>

The loan from a subsidiary is unsecured, interest-bearing at rates representing the cost of funds to the subsidiary and is repayable on the maturity of the subsidiary's external financing arrangements as disclosed in note 25.

(c) *Amounts due from/to fellow subsidiaries and a subsidiary*

The amounts due from/to fellow subsidiaries and a subsidiary are unsecured, interest-free and repayable on demand.

**21 Bank loans**

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unsecured bank loans . . . . .	5,043,988	5,111,238	5,310,488	2,292,000
Current portion. . . . .	<u>(50,000)</u>	<u>(115,000)</u>	<u>(5,310,488)</u>	<u>(792,000)</u>
Non-current portion . . . . .	<u>4,993,988</u>	<u>4,996,238</u>	<u>—</u>	<u>1,500,000</u>

Some banking facilities of the Operating Group and HEC are subject to the fulfilment of covenants relating to certain of the Operating Group and HEC's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Operating Group and HEC were to breach the covenants, the drawn down facilities would become payable on demand. The Operating Group and HEC regularly monitors its compliance with these covenants. Further details of the Operating Group's and HEC's management of liquidity risk are set out in note 29(b). As at 31 December 2010, 2011 and 2012 and 30 September 2013, none of the covenants relating to drawn down facilities had been breached.

## 22 Trade and other payables

	The Operating Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Creditors measured at amortised cost . . . . .	1,535,883	2,515,108	2,259,771	1,829,999
Accrued interest on medium term notes . . . . .	33,010	40,901	40,495	100,935
Derivative financial instruments - held as cash flow/fair value hedging instruments (see note 24) . . . . .	471	3,883	10,138	312
	<u>1,569,364</u>	<u>2,559,892</u>	<u>2,310,404</u>	<u>1,931,246</u>
	HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Creditors measured at amortised cost . . . . .	1,535,883	2,515,108	2,259,771	1,829,999
Derivative financial instruments - held as cash flow/fair value hedging instruments (see note 24) . . . . .	471	3,883	10,138	312
	<u>1,536,354</u>	<u>2,518,991</u>	<u>2,269,909</u>	<u>1,830,311</u>

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

Included in trade and other payables are creditors with the following ageing analysis as at the balance sheet date:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due within 1 month or on demand . . . . .	517,517	980,938	798,157	552,435
Due after 1 month but within 3 months . . . . .	403,324	424,479	349,618	191,816
Due after 3 months but within 12 months . . . . .	615,042	1,109,691	1,111,996	1,085,748
	<u>1,535,883</u>	<u>2,515,108</u>	<u>2,259,771</u>	<u>1,829,999</u>

### 23 Income tax in the balance sheets

#### (a) *Current taxation in the balance sheets represents*

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the year/period . . . . .	797,000	625,111	817,318	744,927
Provisional Profits Tax paid . . . . .	(640,335)	(515,948)	(487,313)	(162,437)
Provision for Hong Kong Profits Tax for the previous years. . . . .	—	109,071	—	330,005
	<u>156,665</u>	<u>218,234</u>	<u>330,005</u>	<u>912,495</u>

(b) *Deferred tax liabilities/(assets) recognised**The Operating Group and HEC*

The components of deferred tax liabilities/(assets) recognised in the balance sheets and the movements during the Relevant Periods are as follows:

	Depreciation allowances in excess of the related depreciation	Fuel Clause Recovery account	Defined benefit retirement schemes	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010 . . . . .	5,538,180	91,008	—	(7,505)	5,621,683
Charged to profit or loss . . . . .	135,096	2,957	—	91	138,144
Charged to other comprehensive income . . . . .	—	—	—	2,673	2,673
At 31 December 2010. . . . .	<u>5,673,276</u>	<u>93,965</u>	<u>—</u>	<u>(4,741)</u>	<u>5,762,500</u>
At 1 January 2011 . . . . .	5,673,276	93,965	—	(4,741)	5,762,500
Charged/(credited) to profit or loss . . . . .	173,283	76,844	13,844	(227)	263,744
Credited to other comprehensive income . . . . .	—	—	(141,276)	(2,339)	(143,615)
At 31 December 2011. . . . .	<u>5,846,559</u>	<u>170,809</u>	<u>(127,432)</u>	<u>(7,307)</u>	<u>5,882,629</u>
At 1 January 2012 . . . . .	5,846,559	170,809	(127,432)	(7,307)	5,882,629
Charged/(credited) to profit or loss . . . . .	119,726	(35,545)	74,125	(263)	158,043
(Credited)/charged to other comprehensive income . . . . .	—	—	(130,778)	1,389	(129,389)
At 31 December 2012. . . . .	<u>5,966,285</u>	<u>135,264</u>	<u>(184,085)</u>	<u>(6,181)</u>	<u>5,911,283</u>
At 1 January 2013 . . . . .	5,966,285	135,264	(184,085)	(6,181)	5,911,283
Charged/(credited) to profit or loss . . . . .	24,702	(113,102)	4,208	—	(84,192)
Charged to other comprehensive income . . . . .	—	—	114,489	2,121	116,610
At 30 September 2013 . . . . .	<u>5,990,987</u>	<u>22,162</u>	<u>(65,388)</u>	<u>(4,060)</u>	<u>5,943,701</u>

The Operating Group and HEC had no material unprovided deferred tax assets or liabilities as at 31 December 2010, 2011 and 2012 and 30 September 2013.

## 24 Derivative financial instruments

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivative financial instruments used for hedging:				
- Cross currency swaps . . . . .	(122,436)	422,518	645,367	299,620
- Interest rate swaps . . . . .	11,304	1,381	—	—
- Forward foreign exchange contracts . . . . .	45,298	10,598	(9,888)	1,421
Total . . . . .	(65,834)	434,497	635,479	301,041
Current portion of derivative financial instruments (see notes 17 and 22).	(45,298)	(11,979)	9,888	(1,413)
	<u>(111,132)</u>	<u>422,518</u>	<u>645,367</u>	<u>299,628</u>
<b>Represented by:</b>				
Derivative financial instruments assets . . . . .	20,646	432,537	645,669	299,628
Derivative financial instruments liabilities . . . . .	(131,778)	(10,019)	(302)	—
	<u>(111,132)</u>	<u>422,518</u>	<u>645,367</u>	<u>299,628</u>

## 25 Debt profile

*The Operating Group*

	At 31 December 2010		
	Bank loans and bank overdrafts	Medium term notes	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	51,685	—	51,685
Repayable after 1 year but within 2 years . .	—	520,646	520,646
Repayable after 2 years but within 5 years .	4,993,988	998,880	5,992,868
Repayable after 5 years . . . . .	—	6,023,069	6,023,069
	<u>5,045,673</u>	<u>7,542,595</u>	<u>12,588,268</u>

## At 31 December 2011

	Bank loans and bank overdrafts	Medium term notes	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	115,000	501,847	616,847
Repayable after 1 year but within 2 years . .	4,996,238	—	4,996,238
Repayable after 2 years but within 5 years .	—	1,897,890	1,897,890
Repayable after 5 years . . . . .	—	8,263,533	8,263,533
	<u>5,111,238</u>	<u>10,663,270</u>	<u>15,774,508</u>

## At 31 December 2012

	Bank loans and bank overdrafts	Medium term notes	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	5,316,419	—	5,316,419
Repayable after 1 year but within 2 years . .	—	499,843	499,843
Repayable after 2 years but within 5 years .	—	1,697,959	1,697,959
Repayable after 5 years . . . . .	—	8,971,463	8,971,463
	<u>5,316,419</u>	<u>11,169,265</u>	<u>16,485,684</u>

## At 30 September 2013

	Bank loans and bank overdrafts	Medium term notes	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	798,022	—	798,022
Repayable after 1 year but within 2 years . .	1,500,000	999,610	2,499,610
Repayable after 2 years but within 5 years .	—	1,198,681	1,198,681
Repayable after 5 years . . . . .	—	9,320,275	9,320,275
	<u>2,298,022</u>	<u>11,518,566</u>	<u>13,816,588</u>



HEC

## At 31 December 2010

	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	51,685	—	51,685
Repayable after 1 year but within 2 years . .	—	520,646	520,646
Repayable after 2 years but within 5 years .	4,993,988	998,880	5,992,868
Repayable after 5 years . . . . .	—	6,023,069	6,023,069
	<u>5,045,673</u>	<u>7,542,595</u>	<u>12,588,268</u>

## At 31 December 2011

	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	115,000	501,847	616,847
Repayable after 1 year but within 2 years . .	4,996,238	—	4,996,238
Repayable after 2 years but within 5 years .	—	1,897,890	1,897,890
Repayable after 5 years . . . . .	—	8,263,533	8,263,533
	<u>5,111,238</u>	<u>10,663,270</u>	<u>15,774,508</u>

## At 31 December 2012

	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	5,316,419	—	5,316,419
Repayable after 1 year but within 2 years . .	—	499,843	499,843
Repayable after 2 years but within 5 years .	—	1,697,959	1,697,959
Repayable after 5 years . . . . .	—	8,971,463	8,971,463
	<u>5,316,419</u>	<u>11,169,265</u>	<u>16,485,684</u>

At 30 September 2013

	Bank loans and bank overdrafts	Loan from a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000
Repayable within 1 year . . . . .	798,022	—	798,022
Repayable after 1 year but within 2 years . .	1,500,000	999,610	2,499,610
Repayable after 2 years but within 5 years .	—	1,198,681	1,198,681
Repayable after 5 years . . . . .	—	9,320,275	9,320,275
	<u>2,298,022</u>	<u>11,518,566</u>	<u>13,816,588</u>

The loan from PAH and the loan capital from PAH as disclosed in notes 20(a) and 28(c), respectively, have no fixed repayment terms and are expected to be repaid on or before the fifth business day following the Listing Date.

## 26 Employee retirement benefits

The Operating Group offers three retirement schemes which together cover all permanent staff.

One of the schemes (“the Pension Scheme”) provides pension benefits based on the employee’s final basic salary and length of service. This scheme is accounted for as a defined benefit retirement scheme.

Another scheme is defined contribution in nature and offers its members choices to invest in various investment funds. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund (“the Guaranteed Return Scheme”). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme.

Both these schemes are established under trust and are registered under the Hong Kong Occupational Retirement Schemes Ordinance. The assets of the schemes are held independently of the Operating Group’s assets in separate trustee administered funds.

The Operating Group also participates in a master trust Mandatory Provident Fund Scheme (“MPF Scheme”) operated by an independent service provider under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The MPF Scheme is a defined contribution retirement scheme with the employer and its employees each contributing to the plan in accordance with the relevant scheme rules. The MPF Scheme rules provide for voluntary contributions to be made by the employer calculated as a percentage of the employees’ basic salaries.

(a) *Defined benefit retirement schemes ("the Schemes")*

Both defined benefit retirement schemes expose the Operating Group to investment risk, interest rate risk and salary risk while the Pension Scheme also exposes the Operating Group to the risks of longevity and inflation.

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include a long term yield gap, which is the long term expected rate of investment return net of salary increases of 0.3% per annum, pension increases of 2.5% per annum, together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 1 January 2013. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

The retirement scheme expense/income recognised in profit or loss for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 were determined in accordance with HKAS 19 (2011), *Employee benefits*.

(i) The amounts recognised in the balance sheets are as follows:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Present value of defined benefit obligations . . . . .	3,888,981	4,525,763	4,686,065	4,009,033
Fair value of plan assets of the Schemes . . . . .	<u>(4,098,171)</u>	<u>(3,970,187)</u>	<u>(4,080,701)</u>	<u>(4,066,159)</u>
	<u>(209,190)</u>	<u>555,576</u>	<u>605,364</u>	<u>(57,126)</u>
<b>Represented by:</b>				
Employee retirement benefit scheme assets . . . . .	(796,397)	(271,233)	(215,721)	(470,461)
Employee retirement benefit scheme liabilities . . . . .	<u>587,207</u>	<u>826,809</u>	<u>821,085</u>	<u>413,335</u>
	<u>(209,190)</u>	<u>555,576</u>	<u>605,364</u>	<u>(57,126)</u>

A portion of the above asset/liability is expected to be realised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) Movements in the present value of the defined benefit obligations of the Schemes are as follows:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January. . . . .	4,419,433	3,888,981	4,525,763	4,686,065
Current service cost . . . . .	84,521	73,613	99,251	77,717
Interest cost . . . . .	109,740	115,253	66,710	27,763
Employee contributions paid to the Schemes . . . . .	14,171	16,409	16,763	12,524
Actuarial (gains)/losses due to:				
- Liability experience . . . . .	(43,005)	27,501	13,039	61,406
- Financial assumption changes . . . . .	(332,724)	693,338	249,174	(707,855)
Inter-company transfers of employees . . . . .	12,341	—	1,272	—
Benefits paid . . . . .	(375,496)	(289,332)	(285,907)	(148,587)
At 31 December/30 September . . . . .	<u>3,888,981</u>	<u>4,525,763</u>	<u>4,686,065</u>	<u>4,009,033</u>

(iii) Movements in the fair value of the plan assets of the Schemes are as follows:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January. . . . .	4,153,323	4,098,171	3,970,187	4,080,701
Interest income on the Schemes' assets. . . . .	—	—	—	24,434
Return on Schemes' assets excluding interest income . . . . .	—	—	—	47,425
Expected return on the Schemes' assets. . . . .	219,353	214,160	173,769	—
Actuarial gains/(losses). . . . .	11,215	(135,380)	137,681	—
Inter-company transfers of employees . . . . .	15,385	—	1,272	—
Employer contributions paid to the Schemes . . . . .	60,220	66,159	66,936	49,662
Employee contributions paid to the Schemes . . . . .	14,171	16,409	16,763	12,524
Benefits paid . . . . .	(375,496)	(289,332)	(285,907)	(148,587)
At 31 December/30 September . . . . .	<u>4,098,171</u>	<u>3,970,187</u>	<u>4,080,701</u>	<u>4,066,159</u>

- (iv) The income/expense recognised in the consolidated statement of profit or loss, prior to any capitalisation of employment costs attributable to fixed assets additions, is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Current service cost . . . . .	84,521	73,613	99,251	74,438	77,717
Interest cost . . . . .	109,740	115,253	66,710	50,033	—
Expected return on assets of the Schemes . . . . .	(219,353)	(214,160)	(173,769)	(130,327)	—
Net interest on net defined benefit liability . . . . .	—	—	—	—	3,329
	<u>(25,092)</u>	<u>(25,294)</u>	<u>(7,808)</u>	<u>(5,856)</u>	<u>81,046</u>

The income/expense is recognised in the following line items in the consolidated statement of profit or loss:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Direct costs . . . . .	(21,006)	(19,939)	(6,203)	(4,636)	56,086
Other operating costs . . . . .	<u>(4,086)</u>	<u>(5,355)</u>	<u>(1,605)</u>	<u>(1,220)</u>	<u>24,960</u>
	<u>(25,092)</u>	<u>(25,294)</u>	<u>(7,808)</u>	<u>(5,856)</u>	<u>81,046</u>

- (v) The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income is as follows:

	The Operating Group and HEC			
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January . . . . .	1,048,823	668,059	1,524,278	1,648,810
Remeasurement of net defined benefit obligations recognised in the consolidated statement of comprehensive income during the year/period . . . . .	<u>(380,764)</u>	<u>856,219</u>	<u>124,532</u>	<u>(693,874)</u>
At 31 December/30 September . . . . .	<u>668,059</u>	<u>1,524,278</u>	<u>1,648,810</u>	<u>954,936</u>

The Operating Group regularly monitors the investment strategy of the Schemes by reviewing the movement of capital markets and economic outlook.

(vi) The plan assets of the Schemes comprise:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong equities . . . . .	244,205	216,375	337,391	340,215
European equities. . . . .	174,979	109,007	175,136	253,037
North American equities . . . . .	296,502	306,740	386,322	523,577
Other Asia Pacific equities . . . . .	135,065	117,380	180,376	183,819
Global bonds . . . . .	3,160,915	2,805,371	2,753,963	2,675,576
Deposits, cash and others. . . . .	86,505	415,314	247,513	89,935
At 31 December/30 September . . . . .	<u>4,098,171</u>	<u>3,970,187</u>	<u>4,080,701</u>	<u>4,066,159</u>

(vii) The principal actuarial assumptions used at the balance sheet dates (expressed as a weighted average) are as follows:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
Discount rate . . . . .	3.00%	1.50%	0.80%	2.30%
Long term salary increase rate . . . . .	5.00%	5.00%	5.00%	5.00%
Future pension increase rate. . . . .	2.50%	2.50%	2.50%	2.50%

## (viii) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, while holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

## (1) The Pension Scheme

*The Operating Group and HEC*

	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Actuarial assumptions</b>	<b>Effect on defined benefit obligation</b>			
Discount rate				
- increase by 0.25% . . . . .	(43,574)	(62,860)	(73,942)	(51,270)
- decrease by 0.25% . . . . .	46,080	66,710	78,574	54,179
Pension increase rate				
- increase by 0.25% . . . . .	39,102	56,680	67,289	49,244
- decrease by 0.25% . . . . .	(37,343)	(53,982)	(64,010)	(46,999)
Mortality rate applied to a specific age				
- set forward one year . . . . .	(42,958)	(66,449)	(81,594)	(57,144)
- set backward one year . . . . .	43,330	67,806	83,742	57,993

## (2) The Guaranteed Return Scheme

*The Operating Group and HEC*

	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Actuarial assumptions</b>	<b>Effect on defined benefit obligation</b>			
Discount rate				
- increase by 0.25% . . . . .	(60,359)	(65,875)	(62,764)	(49,039)
- decrease by 0.25% . . . . .	62,496	68,241	64,967	50,625
Interest to be credited				
- increase by 0.25% . . . . .	62,038	66,737	63,400	54,907
- decrease by 0.25% . . . . .	(60,214)	(64,775)	(61,591)	(53,405)

- (ix) The following table sets out the weighted average durations of the defined benefit obligations of the Schemes:

	The Operating Group and HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
The Pension Scheme . . . . .	15.1 Years	16.3 Years	16.6 Years	14.7 Years
The Guaranteed Return Scheme. . . . .	9.4 Years	9.3 Years	9.0 Years	7.9 Years

The Operating Group and HEC expect to contribute HK\$71,592,000 to the defined benefit retirement schemes for the period from 1 October 2013 to 30 September 2014.

- (b) **Defined contribution retirement schemes**

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Expenses recognised in profit or loss . . . . .	<u>29,199</u>	<u>24,967</u>	<u>26,320</u>	<u>19,671</u>	<u>21,227</u>

Forfeited contributions of HK\$2,203,000, HK\$4,111,000, HK\$238,000, HK\$238,000 (unaudited) and HK\$548,000 have been received during the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively.



## 27 Reconciliation of profit before taxation to cash generated from operations

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before taxation . . . . .	5,614,734	5,323,359	5,362,037	4,304,794	3,989,400
Adjustments for:					
Net financial instrument revaluation and exchange loss/(gain) . . . . .	5,728	(963)	673	9	(186)
Finance costs . . . . .	112,857	249,160	264,910	190,559	214,626
Interest transferred to fuel costs . . .	16,817	19,577	20,400	15,237	15,028
Interest income . . . . .	(268)	(85)	(274)	(265)	(18)
Depreciation . . . . .	1,736,005	1,779,414	1,862,207	1,373,382	1,441,132
Amortisation of leasehold land . . . .	58,030	58,061	58,192	43,801	43,866
Net loss on disposal of fixed assets and fixed assets written off . . . . .	42,854	38,222	46,662	14,371	11,930
Changes in working capital:					
Decrease/(increase) in inventories . .	206,035	(359,955)	(18,150)	234,901	134,241
Increase/decrease in net employee retirement benefit scheme assets/liabilities . . . . .	(94,536)	(91,453)	(74,744)	(56,368)	31,384
(Increase)/decrease in trade and other receivables . . . . .	(39,400)	10,849	(99,813)	(475,593)	(431,205)
Increase/(decrease) in trade and other payables . . . . .	11,768	763,125	(24,173)	(49,010)	55,285
(Increase)/decrease in amounts due from fellow subsidiaries . . . . .	(1,192)	(3,861)	123	(361)	(28)
Increase/(decrease) in amount due to a fellow subsidiary . . . . .	9,915	—	(10,225)	—	—
Movement in Fuel Clause Recovery Account . . . . .	(17,924)	(465,724)	215,428	207,984	821,674
Cash generated from operations . . . .	<u>7,661,423</u>	<u>7,319,726</u>	<u>7,603,253</u>	<u>5,803,441</u>	<u>6,327,129</u>

## 28 Capital and reserves

(a) *Movements in components of equity*

The reconciliation between the opening and closing balances of each component of the Operating Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in HEC's individual components of equity between the beginning and the end of the year/period are set out below:

## HEC

	Attributable to the equity shareholders of HEC					Total HK\$'000
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	
	(note 28(b))	(note 28(d))		(note 13)	(note 28(c))	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Balance at 1 January 2010</b>	2,411,600	(5,379)	5,379	4,196,091	8,845,000	15,452,691
<b>Changes in equity for 2010:</b>						
Profit attributable to the equity shareholders	—	—	4,619,529	—	—	4,619,529
Other comprehensive income	—	13,525	380,764	—	—	394,289
Total comprehensive income for the year	—	13,525	5,000,293	—	—	5,013,818
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(4,196,091)	—	(4,196,091)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(3,682,672)	3,682,672	—	—
<b>Balance at 31 December 2010</b>	<u>2,411,600</u>	<u>8,146</u>	<u>—</u>	<u>3,682,672</u>	<u>8,845,000</u>	<u>14,947,418</u>
<b>Balance at 1 January 2011</b>	2,411,600	8,146	—	3,682,672	8,845,000	14,947,418
<b>Changes in equity for 2011:</b>						
Profit attributable to the equity shareholders	—	—	4,479,535	—	—	4,479,535
Other comprehensive income	—	(11,836)	(714,943)	—	—	(726,779)
Total comprehensive income for the year	—	(11,836)	3,764,592	—	—	3,752,756
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(3,682,672)	—	(3,682,672)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(2,437,902)	2,437,902	—	—
<b>Balance at 31 December 2011</b>	<u>2,411,600</u>	<u>(3,690)</u>	<u>3,690</u>	<u>2,437,902</u>	<u>8,845,000</u>	<u>13,694,502</u>

Attributable to the equity shareholders of HEC						
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	Total
	(note 28(b))	(note 28(d))		(note 13)	(note 28(c))	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at 1 January 2012</b>	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
<b>Changes in equity for 2012:</b>						
Profit attributable to the equity shareholders	—	—	4,541,678	—	—	4,541,678
Other comprehensive income	—	7,027	6,246	—	—	13,273
Total comprehensive income for the year	—	7,027	4,547,924	—	—	4,554,951
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a))	—	—	(1,323,000)	—	—	(1,323,000)
Proposed final dividend (see note 13(a))	—	—	(3,228,614)	3,228,614	—	—
<b>Balance at 31 December 2012</b>	<u>2,411,600</u>	<u>3,337</u>	<u>—</u>	<u>3,228,614</u>	<u>8,845,000</u>	<u>14,488,551</u>
<b>Balance at 1 January 2013</b>	2,411,600	3,337	—	3,228,614	8,845,000	14,488,551
<b>Changes in equity for the nine months ended 30 September 2013:</b>						
Profit attributable to the equity shareholders	—	—	3,563,312	—	—	3,563,312
Other comprehensive income	—	10,734	579,385	—	—	590,119
Total comprehensive income for the period	—	10,734	4,142,697	—	—	4,153,431
Final dividend in respect of the previous year approved and paid (see note 13(b))	—	—	—	(3,228,614)	—	(3,228,614)
Interim dividend paid (see note 13(a))	—	—	(1,387,000)	—	—	(1,387,000)
<b>Balance at 30 September 2013</b>	<u>2,411,600</u>	<u>14,071</u>	<u>2,755,697</u>	<u>—</u>	<u>8,845,000</u>	<u>14,026,368</u>

	Attributable to the equity shareholders of HEC					
	Share capital	Hedging reserve	Revenue reserve	Proposed/ declared dividend	Loan capital	Total
	(note 28(b))	(note 28(d))		(note 13)	(note 28(c))	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Unaudited</b>						
Balance at 1 January 2012 . . . . .	2,411,600	(3,690)	3,690	2,437,902	8,845,000	13,694,502
<b>Changes in equity for the nine months ended 30 September 2012:</b>						
Profit attributable to the equity shareholders . . . . .	—	—	3,436,141	—	—	3,436,141
Other comprehensive income . . . . .	—	42,522	(192,210)	—	—	(149,688)
Total comprehensive income for the period . . . . .	—	42,522	3,243,931	—	—	3,286,453
Final dividend in respect of the previous year approved and paid (see note 13(b)) . . . . .	—	—	—	(2,437,902)	—	(2,437,902)
Interim dividend paid (see note 13(a)) . . . . .	—	—	(1,323,000)	—	—	(1,323,000)
<b>Balance at 30 September 2012 . . . . .</b>	<u>2,411,600</u>	<u>38,832</u>	<u>1,924,621</u>	<u>—</u>	<u>8,845,000</u>	<u>13,220,053</u>

(b) *Share capital*

	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Authorised, issued and fully paid:</b>				
1,205,800,000 ordinary shares of HK\$2 each . . . . .	<u>2,411,600</u>	<u>2,411,600</u>	<u>2,411,600</u>	<u>2,411,600</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of HEC. All shares rank equally with regard to HEC's residual assets.

(c) *Loan capital*

	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward and carried forward . . . . .	<u>8,845,000</u>	<u>8,845,000</u>	<u>8,845,000</u>	<u>8,845,000</u>

Loan capital represents an investment of funds received from the ultimate holding company, PAH, as a shareholder's investment. The loan capital is expected to be repaid on or before the fifth business day following the Listing Date.

(d) ***Nature and purpose of the hedging reserve***

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as set out in note 1(q).

(e) ***Distributability of reserves***

As at 31 December 2010, 2011 and 2012 and 30 September 2013, the aggregate amount of reserves available for distribution to the equity shareholders of HEC, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance was HK\$3,682,672,000, HK\$2,441,592,000, HK\$3,228,614,000 and HK\$2,755,697,000, respectively. The distributable reserves excluding any actuarial gains in relation to remeasurement of net defined benefit obligations at the date of completion of the Acquisition are expected to be distributed to PAH.

(f) ***Capital management***

The Operating Group's primary objectives when managing capital are:

- to safeguard the Operating Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide returns to shareholders by securing access to finance at a reasonable cost;
- to support the Operating Group's stability and future growth; and
- to provide capital for the purpose of strengthening the Operating Group's risk management capability.

The Operating Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Operating Group and capital efficiency, forecast profitability, forecast operating cash flows and forecast capital expenditure and projected investment opportunities.

The Operating Group's strategy is to control its level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Operating Group may adjust the amount of dividends paid to the holding company, issue new shares, return capital to the holding company, raise new debt financing or sell assets to reduce debt.

The gearing ratio of the Operating Group and HEC at 31 December 2010, 2011 and 2012 and 30 September 2013 was as follows:

	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total interest-bearing borrowings . . . .	<u>12,588,268</u>	<u>15,774,508</u>	<u>16,485,684</u>	<u>13,816,588</u>
Total assets . . . . .	<u>51,238,173</u>	<u>52,809,553</u>	<u>53,337,298</u>	<u>52,385,070</u>
<b>Gearing ratio</b> . . . . .	<u>24.6%</u>	<u>29.9%</u>	<u>30.9%</u>	<u>26.4%</u>

Total interest-bearing borrowings of the Operating Group as at 31 December 2010, 2011 and 2012 and 30 September 2013 include bank loans, bank overdrafts and medium term notes as shown on the consolidated balance sheets.

Total interest-bearing borrowings of HEC as at 31 December 2010, 2011 and 2012 and 30 September 2013 include bank loans, bank overdrafts and loan from a subsidiary as shown on the balance sheets of HEC.

As at 31 December 2010, 2011 and 2012 and 30 September 2013, HEC acted as the guarantor in respect of certain loan facilities granted to its subsidiary of HK\$7,689,250,000, HK\$10,346,725,000, HK\$10,622,500,000 and HK\$11,328,500,000 and fully complied with the capital requirements under the loan facility agreements.

## 29 Financial risk management and fair values

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

### (a) Credit risk

The Operating Group's and HEC's 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. The Operating Group and HEC have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, the Operating Group and HEC obtain collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules of HEC. At 31 December 2010, 2011 and 2012 and 30 September 2013, the security deposits held by the Operating Group and HEC totalled HK\$1,747,607,000, HK\$1,801,353,000, HK\$1,838,963,000 and HK\$1,880,851,000, respectively.

The Operating Group and HEC have a defined minimum credit rating requirement and transaction limit for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. The Operating Group and HEC do not expect any counterparty to fail to meet its obligations.

The Operating Group and HEC have no significant concentrations of credit risk in respect of trade and other receivables relating to electricity customers, as the five largest customers combined did not exceed 30% of the Operating Group's and HEC's total turnover.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheets.

Except for the financial guarantees given by HEC as set out in note 31, the Operating Group and HEC have not provided any other guarantee which would expose the Operating Group and HEC to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 31.

Further quantitative disclosures in respect of the Operating Group's and HEC's exposure to credit risk arising from trade and other receivables are set out in note 17.

(b) **Liquidity risk**

The Operating Group and HEC operate a central cash management system for its fellow subsidiaries in order to achieve a better control of risk and minimise the costs of funds. The Operating Group's and HEC's policy is to regularly monitor current and expected liquidity requirements and their compliance with loan covenants to ensure that they maintain sufficient reserves of cash and adequate committed lines of funding to meet their liquidity requirements in the short and longer term. The Operating Group and HEC had undrawn committed bank facilities of HK\$6,500,000,000, HK\$6,500,000,000, HK\$5,540,000,000 and HK\$3,770,000,000 at 31 December 2010, 2011 and 2012 and 30 September 2013, respectively.

The following tables show the remaining contractual maturities at the balance sheet date of the Operating Group's and HEC's 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 the balance sheet date) and the earliest date the Operating Group and HEC can be required to pay.

*The Operating Group*

At 31 December 2010

	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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Medium term notes						
plus accrued interest . . . . .	7,575,605	10,547,726	318,952	803,099	1,860,832	7,564,843
Bank loans plus						
accrued interest . . . . .	5,047,580	5,123,400	76,047	26,244	5,021,109	—
Bank overdrafts . . . . .	1,685	1,685	1,685	—	—	—
Creditors and accrued charges . . . . .	1,526,791	1,526,791	1,526,791	—	—	—
Interest rate swaps (net settled) and related interest accruals . . . . .	(12,908)	(13,033)	(10,437)	(2,596)	—	—
Cross currency swaps and related interest accruals . . . . .	117,593					
- outflow . . . . .		691,484	69,163	69,272	207,252	345,797
- inflow . . . . .		(1,652,931)	(165,293)	(165,293)	(495,880)	(826,465)
	<u>14,256,346</u>	<u>16,225,122</u>	<u>1,816,908</u>	<u>730,726</u>	<u>6,593,313</u>	<u>7,084,175</u>

**Derivatives settled gross:**

Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)): . . . . .	(27,050)					
- outflow . . . . .		2,252,324	2,185,930	66,394	—	—
- inflow . . . . .		(2,279,735)	(2,209,699)	(70,036)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)): . . . . .	(18,248)					
- outflow . . . . .		365,994	362,455	3,539	—	—
- inflow . . . . .		(383,747)	(380,033)	(3,714)	—	—



At 31 December 2011						
	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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Medium term notes						
plus accrued interest . . . . .	10,704,171	14,043,370	912,238	406,240	3,046,472	9,678,420
Bank loans plus						
accrued interest . . . . .	5,115,108	5,171,022	145,429	5,025,593	—	—
Creditors and accrued charges . . . . .	2,503,419	2,503,419	2,503,419	—	—	—
Interest rate swaps (net settled) and related interest accruals . . . . .	(2,987)	(2,794)	(2,794)	—	—	—
Cross currency swaps and related interest accruals . . . . .	(429,248)					
- outflow . . . . .		1,051,209	116,637	116,742	350,544	467,286
- inflow . . . . .		(2,232,547)	(248,061)	(248,061)	(744,181)	(992,244)
	<u>17,890,463</u>	<u>20,533,679</u>	<u>3,426,868</u>	<u>5,300,514</u>	<u>2,652,835</u>	<u>9,153,462</u>
<b>Derivatives settled gross:</b>						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)) . . . . .	(6,964)					
- outflow . . . . .		3,105,687	3,039,856	65,831	—	—
- inflow . . . . .		(3,112,065)	(3,047,844)	(64,221)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)) . . . . .	(3,634)					
- outflow . . . . .		349,157	349,157	—	—	—
- inflow . . . . .		(352,605)	(352,605)	—	—	—

At 31 December 2012						
	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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Medium term notes						
plus accrued interest . . . . .	11,209,760	14,173,036	427,161	927,036	2,826,748	9,992,091
Bank loans plus						
accrued interest . . . . .	5,315,114	5,338,286	5,338,286	—	—	—
Bank overdrafts . . . . .	5,931	5,931	5,931	—	—	—
Creditors and accrued charges . . . . .	2,249,350	2,249,350	2,249,350	—	—	—
Cross currency swaps and related interest accruals . . . . .	(651,923)					
- outflow . . . . .		940,802	117,522	117,520	352,880	352,880
- inflow . . . . .		(1,976,250)	(247,033)	(247,033)	(741,092)	(741,092)
	<u>18,128,232</u>	<u>20,731,155</u>	<u>7,891,217</u>	<u>797,523</u>	<u>2,438,536</u>	<u>9,603,879</u>
<b>Derivatives settled gross:</b>						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)): . . . . .	6,352					
- outflow . . . . .		5,741,683	3,498,636	2,243,047	—	—
- inflow . . . . .		(5,737,349)	(3,493,724)	(2,243,625)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)): . . . . .	3,536					
- outflow . . . . .		174,456	174,456	—	—	—
- inflow . . . . .		(170,921)	(170,921)	—	—	—

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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Medium term notes						
plus accrued interest . . . . .	11,619,501	14,932,596	448,794	1,428,007	2,347,622	10,708,173
Bank loans plus						
accrued interest . . . . .	2,293,149	2,330,726	813,399	1,517,327	—	—
Bank overdrafts . . . . .	6,022	6,022	6,022	—	—	—
Creditors and accrued charges . . . . .	1,824,043	1,824,043	1,824,043	—	—	—
Cross currency swaps and related interest accruals . . . . .	(369,333)					
- outflow . . . . .		848,063	116,985	116,985	351,277	262,816
- inflow . . . . .		(1,853,735)	(247,164)	(247,164)	(741,495)	(617,912)
	<u>15,373,382</u>	<u>18,087,715</u>	<u>2,962,079</u>	<u>2,815,155</u>	<u>1,957,404</u>	<u>10,353,077</u>

**Derivatives settled gross:**

## Forward foreign

exchange contracts

held as cash flow

hedging instruments

(note 29(d)(i)): . . . . . (1,381)

- outflow . . . . . 4,214,756 3,157,533 1,057,223 — —

- inflow . . . . . (4,216,756) (3,159,165) (1,057,591) — —

## Other forward foreign

exchange contracts

(note 29(d)(ii)): . . . . . (40)

- outflow . . . . . 181,574 181,574 — — —

- inflow . . . . . (181,619) (181,619) — — —

HEC

At 31 December 2010

	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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan from a subsidiary plus accrued interest . . . . .	7,575,605	10,547,726	318,952	803,099	1,860,832	7,564,843
Bank loans plus accrued interest . . . . .	5,047,580	5,123,400	76,047	26,244	5,021,109	—
Bank overdrafts . . . . .	1,685	1,685	1,685	—	—	—
Creditors and accrued charges . . . . .	1,526,791	1,526,791	1,526,791	—	—	—
Interest rate swaps (net settled) and related interest accruals . . . . .	(12,908)	(13,033)	(10,437)	(2,596)	—	—
Cross currency swaps and related interest accruals . . . . .	117,593					
- outflow . . . . .		691,484	69,163	69,272	207,252	345,797
- inflow . . . . .		(1,652,931)	(165,293)	(165,293)	(495,880)	(826,465)
	<u>14,256,346</u>	<u>16,225,122</u>	<u>1,816,908</u>	<u>730,726</u>	<u>6,593,313</u>	<u>7,084,175</u>

**Derivatives settled gross:**

Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)): . . . . .	(27,050)					
- outflow . . . . .		2,252,324	2,185,930	66,394	—	—
- inflow . . . . .		(2,279,735)	(2,209,699)	(70,036)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)): . . . . .	(18,248)					
- outflow . . . . .		365,994	362,455	3,539	—	—
- inflow . . . . .		(383,747)	(380,033)	(3,714)	—	—

At 31 December 2011						
	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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan from a subsidiary plus accrued interest . . . . .	10,704,171	14,043,370	912,238	406,240	3,046,472	9,678,420
Bank loans plus accrued interest . . . . .	5,115,108	5,171,022	145,429	5,025,593	—	—
Creditors and accrued charges . . . . .	2,503,419	2,503,419	2,503,419	—	—	—
Interest rate swaps (net settled) and related interest accruals . . . . .	(2,987)	(2,794)	(2,794)	—	—	—
Cross currency swaps and related interest accruals . . . . .	(429,248)					
- outflow . . . . .		1,051,209	116,637	116,742	350,544	467,286
- inflow . . . . .		(2,232,547)	(248,061)	(248,061)	(744,181)	(992,244)
	<u>17,890,463</u>	<u>20,533,679</u>	<u>3,426,868</u>	<u>5,300,514</u>	<u>2,652,835</u>	<u>9,153,462</u>
<b>Derivatives settled gross:</b>						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)) . . . . .	(6,964)					
- outflow . . . . .		3,105,687	3,039,856	65,831	—	—
- inflow . . . . .		(3,112,065)	(3,047,844)	(64,221)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)) . . . . .	(3,634)					
- outflow . . . . .		349,157	349,157	—	—	—
- inflow . . . . .		(352,605)	(352,605)	—	—	—

At 31 December 2012						
	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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan from a subsidiary plus accrued interest . . . . .	11,209,760	14,173,036	427,161	927,036	2,826,748	9,992,091
Bank loans plus accrued interest . . . . .	5,315,114	5,338,286	5,338,286	—	—	—
Bank overdrafts . . . . .	5,931	5,931	5,931	—	—	—
Creditors and accrued charges . . . . .	2,249,350	2,249,350	2,249,350	—	—	—
Cross currency swaps and related interest accruals . . . . .	(651,923)					
- outflow . . . . .		940,802	117,522	117,520	352,880	352,880
- inflow . . . . .		(1,976,250)	(247,033)	(247,033)	(741,092)	(741,092)
	<u>18,128,232</u>	<u>20,731,155</u>	<u>7,891,217</u>	<u>797,523</u>	<u>2,438,536</u>	<u>9,603,879</u>
<b>Derivatives settled gross:</b>						
Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)): . . . . .	6,352					
- outflow . . . . .		5,741,683	3,498,636	2,243,047	—	—
- inflow . . . . .		(5,737,349)	(3,493,724)	(2,243,625)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)): . . . . .	3,536					
- outflow . . . . .		174,456	174,456	—	—	—
- inflow . . . . .		(170,921)	(170,921)	—	—	—

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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan from a subsidiary plus accrued interest . . . . .	11,619,501	14,932,596	448,794	1,428,007	2,347,622	10,708,173
Bank loans plus accrued interest . . . . .	2,293,149	2,330,726	813,399	1,517,327	—	—
Bank overdrafts . . . . .	6,022	6,022	6,022	—	—	—
Creditors and accrued charges . . . . .	1,824,043	1,824,043	1,824,043	—	—	—
Cross currency swaps and related interest accruals . . . . .	(369,333)					
- outflow . . . . .		848,063	116,985	116,985	351,277	262,816
- inflow . . . . .		(1,853,735)	(247,164)	(247,164)	(741,495)	(617,912)
	<u>15,373,382</u>	<u>18,087,715</u>	<u>2,962,079</u>	<u>2,815,155</u>	<u>1,957,404</u>	<u>10,353,077</u>

**Derivatives settled gross:**

Forward foreign exchange contracts held as cash flow hedging instruments (note 29(d)(i)): . . . . .	(1,381)					
- outflow . . . . .		4,214,756	3,157,533	1,057,223	—	—
- inflow . . . . .		(4,216,756)	(3,159,165)	(1,057,591)	—	—
Other forward foreign exchange contracts (note 29(d)(ii)): . . . . .	(40)					
- outflow . . . . .		181,574	181,574	—	—	—
- inflow . . . . .		(181,619)	(181,619)	—	—	—

**(c) Interest rate risk**

The Operating Group and HEC are exposed to cash flow interest rate risk on its 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.

**(i) Hedging**

The Operating Group's and HEC's policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Operating Group and HEC also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the treasury policy.

At 31 December 2010, 2011 and 2012 and 30 September 2013, the Operating Group and HEC had cross currency swaps with a total notional amount of HK\$3,882,320,000, HK\$5,826,020,000, HK\$5,826,020,000 and HK\$5,826,020,000, respectively and outstanding interest rate swaps of HK\$750,000,000, HK\$750,000,000, HK\$Nil and HK\$Nil, respectively.

The Operating Group classifies cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 1(q).

The net fair value of cross currency swaps entered into by the Operating Group and HEC at 31 December 2010, 2011 and 2012 and 30 September 2013 was HK\$122,436,000 liability, HK\$422,518,000 asset, HK\$645,367,000 asset and HK\$299,620,000 asset, respectively. The net fair value of interest rate swaps entered into by the Operating Group and HEC at 31 December 2010, 2011 and 2012 and 30 September 2013 was a net asset of HK\$11,304,000, HK\$1,381,000, HK\$Nil and HK\$Nil, respectively. These amounts are recognised as derivative financial instruments assets/liabilities.

(ii) *Interest rate profile*

The following table details the interest rate profile of the Operating Group's and HEC's net interest-bearing assets and liabilities 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 (i) above).

*The Operating Group*

	At 31 December						At 30 September	
	2010		2011		2012		2013	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
<b>Net fixed rate liabilities:</b>								
Medium term notes . . . . .	3.99	(4,056,212)	3.95	(5,516,328)	3.80	(6,308,828)	3.73	(7,005,121)
Bank loans . . . . .	4.31	(249,699)	4.31	(249,812)	—	—	—	—
		<u>(4,305,911)</u>		<u>(5,766,140)</u>		<u>(6,308,828)</u>		<u>(7,005,121)</u>
<b>Net variable rate assets/ (liabilities):</b>								
Cash and bank balances . . . . .	—*	8,728	—*	23,840	—*	7,649	—*	7,825
Medium term notes . . . . .	1.18	(3,486,383)	1.16	(5,146,942)	1.31	(4,860,437)	1.30	(4,513,445)
Bank loans . . . . .	0.51	(4,794,289)	0.54	(4,861,426)	0.63	(5,310,488)	1.04	(2,292,000)
Customers' deposits . . . . .	—*	(1,747,607)	—*	(1,801,353)	—*	(1,838,963)	—*	(1,880,851)
Bank overdrafts . . . . .	5.00	(1,685)	—	—	5.00	(5,931)	5.00	(6,022)
		<u>(10,021,236)</u>		<u>(11,785,881)</u>		<u>(12,008,170)</u>		<u>(8,684,493)</u>



## HEC

	At 31 December						At 30 September	
	2010		2011		2012		2013	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
<b>Net fixed rate liabilities:</b>								
Loan from a subsidiary . . . .	3.99	(4,056,212)	3.95	(5,516,328)	3.80	(6,308,828)	3.73	(7,005,121)
Bank loans . . . . .	4.31	(249,699)	4.31	(249,812)	—	—	—	—
		<u>(4,305,911)</u>		<u>(5,766,140)</u>		<u>(6,308,828)</u>		<u>(7,005,121)</u>
<b>Net variable rate assets/ (liabilities):</b>								
Cash and bank balances . . . . .	—*	8,728	—*	23,840	—*	7,649	—*	7,825
Loan from a subsidiary . . . .	1.18	(3,486,383)	1.16	(5,146,942)	1.31	(4,860,437)	1.30	(4,513,445)
Bank loans . . . . .	0.51	(4,794,289)	0.54	(4,861,426)	0.63	(5,310,488)	1.04	(2,292,000)
Customers' deposits . . . . .	—*	(1,747,607)	—*	(1,801,353)	—*	(1,838,963)	—*	(1,880,851)
Bank overdrafts . .	5.00	(1,685)	—	—	5.00	(5,931)	5.00	(6,022)
		<u>(10,021,236)</u>		<u>(11,785,881)</u>		<u>(12,008,170)</u>		<u>(8,684,493)</u>

\* Less than 0.01%

(iii) *Sensitivity analysis*

At 31 December 2010, 2011 and 2012 and 30 September 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Operating Group's profit after taxation and revenue reserve by approximately HK\$67,245,000, HK\$82,636,000, HK\$80,217,000 and HK\$60,690,000, respectively. Other components of equity would have increased/decreased by approximately HK\$4,248,000, HK\$1,700,000, HK\$995,000 and HK\$288,000, 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.

(d) **Currency risk**(i) *Committed and forecast transactions*

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

The Operating Group and HEC use forward foreign exchange contracts to manage its currency risk and classifies these as cash flow hedges. At 31 December 2010, 2011 and 2012 and 30 September 2013, the Operating Group and HEC had forward foreign exchange contracts hedging committed and forecast transactions with a net fair value of HK\$27,050,000 asset, HK\$6,964,000 asset, HK\$6,352,000 liability and HK\$1,381,000 asset, respectively recognised as derivative financial instruments.

(ii) *Recognised assets and liabilities*

The net fair value of forward foreign exchange contracts used by the Operating Group and HEC as economic hedges of monetary assets and liabilities in foreign currencies at 31 December 2010, 2011 and 2012 and 30 September 2013 was HK\$18,248,000 asset, HK\$3,634,000 asset, HK\$3,536,000 liability and HK\$40,000 asset, respectively, recognised as derivative financial instruments.

The Operating Group's and HEC's borrowings are either hedged into Hong Kong dollars by way of cross currency swaps or are denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Operating Group's and HEC's borrowings.

(iii) *Exposure to currency risk*

The following table details the Operating Group's and HEC's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Operating Group and HEC.

*The Operating Group*

'000	At 31 December 2010			
	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(5)	(5,799)	—	—
Trade and other payables . . . . .	27,398	3,234,239	113	159
Medium term notes . . . . .	500,000	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	527,393	3,228,440	113	159
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(18,658)	(2,571,300)	—	—
Notional amounts of cross currency swaps . . . . .	(500,000)	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>8,735</u>	<u>657,140</u>	<u>113</u>	<u>159</u>

'000	At 31 December 2011			
	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(40)	(5,728)	—	—
Trade and other payables . . . . .	80,311	2,312,941	1,235	1,086
Medium term notes . . . . .	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	830,271	2,307,213	1,235	1,086
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(28,434)	(1,093,002)	(1,159)	(811)
Notional amounts of cross currency swaps . . . . .	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>51,837</u>	<u>1,214,211</u>	<u>76</u>	<u>275</u>
	At 31 December 2012			
'000	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(80)	(45)	(6)	(1)
Trade and other payables . . . . .	67,689	826,742	870	1,245
Medium term notes . . . . .	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	817,609	826,697	864	1,244
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(13,331)	(622,019)	(555)	(313)
Notional amounts of cross currency swaps . . . . .	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>54,278</u>	<u>204,678</u>	<u>309</u>	<u>931</u>

'000	At 30 September 2013			
	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(83)	(1)	(20)	(6)
Trade and other payables . . . . .	65,703	356,033	575	138
Medium term notes . . . . .	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	815,620	356,032	555	132
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(22,005)	(132,079)	(53)	—
Notional amounts of cross currency swaps . . . . .	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>43,615</u>	<u>223,953</u>	<u>502</u>	<u>132</u>

## HEC

'000	At 31 December 2010			
	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(5)	(5,799)	—	—
Trade and other payables . . . . .	27,398	3,234,239	113	159
Loan from a subsidiary . . . . .	500,000	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	527,393	3,228,440	113	159
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(18,658)	(2,571,300)	—	—
Notional amounts of cross currency swaps . . . . .	(500,000)	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>8,735</u>	<u>657,140</u>	<u>113</u>	<u>159</u>

'000	At 31 December 2011			
	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(40)	(5,728)	—	—
Trade and other payables . . . . .	80,311	2,312,941	1,235	1,086
Loan from a subsidiary . . . . .	<u>750,000</u>	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	830,271	2,307,213	1,235	1,086
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(28,434)	(1,093,002)	(1,159)	(811)
Notional amounts of cross currency swaps . . . . .	<u>(750,000)</u>	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>51,837</u>	<u>1,214,211</u>	<u>76</u>	<u>275</u>
	At 31 December 2012			
'000	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(80)	(45)	(6)	(1)
Trade and other payables . . . . .	67,689	826,742	870	1,245
Loan from a subsidiary . . . . .	<u>750,000</u>	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	817,609	826,697	864	1,244
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(13,331)	(622,019)	(555)	(313)
Notional amounts of cross currency swaps . . . . .	<u>(750,000)</u>	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>54,278</u>	<u>204,678</u>	<u>309</u>	<u>931</u>

'000	At 30 September 2013			
	USD	JPY	GBP	EUR
Cash and bank balances . . . . .	(83)	(1)	(20)	(6)
Trade and other payables . . . . .	65,703	356,033	575	138
Loan from a subsidiary . . . . .	750,000	—	—	—
Gross exposure arising from recognised assets and liabilities . . .	815,620	356,032	555	132
Notional amounts of forward foreign exchange contracts used as economic hedges . . . . .	(22,005)	(132,079)	(53)	—
Notional amounts of cross currency swaps . . . . .	(750,000)	—	—	—
Net exposure arising from recognised assets and liabilities . . .	<u>43,615</u>	<u>223,953</u>	<u>502</u>	<u>132</u>

(iv) *Sensitivity analysis*

The following table indicates that a 10 percent strengthening of the following currencies against Hong Kong dollars at the balance sheet date would have increased/decreased the Operating Group's and HEC's profit for the year (and revenue reserve) and other components of equity.

	At 31 December				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\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)
Japanese Yen . . . . .	14	23,131	292	18,532	(853)	5,971	(708)	5,203
Euros . . . . .	(3)	—	(13)	1,035	(113)	—	(167)	—
Pounds Sterling . . . . .	(76)	1,634	(703)	989	(29)	255	(184)	—

A 10 percent weakening in the above currencies against Hong Kong dollars at the balance sheet date would have had an equal but opposite effect on the Operating Group's and HEC's 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 remeasure those financial instruments held by the Operating Group and HEC which expose the Operating Group and HEC to currency risk 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.

(e) **Fair values**(i) *Financial assets and liabilities carried at fair value*

The following table presents the fair value of the Operating Group's and HEC's financial instruments measured at the balance sheet dates on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13: *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available

Level 3 valuations: Fair value measured using significant unobservable inputs

## (1) Fair value hierarchy recognised fair value measurement

## Recurring fair value measurement

	The Operating Group			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Level 2	Level 2	Level 2	Level 2
<b>Assets</b>				
Derivative financial instruments:				
- Cross currency swaps . . . . .	—	432,537	645,669	299,620
- Interest rate swaps . . . . .	20,646	1,846	—	—
- Forward foreign exchange contracts . . . . .	45,769	14,016	250	1,733
	<u>66,415</u>	<u>448,399</u>	<u>645,919</u>	<u>301,353</u>
<b>Liabilities</b>				
Derivative financial instruments:				
- Cross currency swaps . . . . .	122,436	10,019	302	—
- Interest rate swaps . . . . .	9,342	465	—	—
- Forward foreign exchange contracts . . . . .	471	3,418	10,138	312
Medium term notes subject to fair value hedges . . . . .	<u>3,486,383</u>	<u>5,146,942</u>	<u>4,860,437</u>	<u>4,513,445</u>
	<u>3,618,632</u>	<u>5,160,844</u>	<u>4,870,877</u>	<u>4,513,757</u>

## Recurring fair value measurement

	HEC			
	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000 Level 2	HK\$'000 Level 2	HK\$'000 Level 2	HK\$'000 Level 2
<b>Assets</b>				
Derivative financial instruments:				
- Cross currency swaps . . . . .	—	432,537	645,669	299,620
- Interest rate swaps . . . . .	20,646	1,846	—	—
- Forward foreign exchange contracts . . . . .	45,769	14,016	250	1,733
	<u>66,415</u>	<u>448,399</u>	<u>645,919</u>	<u>301,353</u>
<b>Liabilities</b>				
Derivative financial instruments:				
- Cross currency swaps . . . . .	122,436	10,019	302	—
- Interest rate swaps . . . . .	9,342	465	—	—
- Forward foreign exchange contracts . . . . .	471	3,418	10,138	312
Loan from a subsidiary subject to fair value hedges . . . . .	3,486,383	5,146,942	4,860,437	4,513,445
	<u>3,618,632</u>	<u>5,160,844</u>	<u>4,870,877</u>	<u>4,513,757</u>

## (2) Valuation techniques and inputs in Level 2 fair value measurements

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair values of cross currency swaps are determined by discounting the future cash flows of the contracts at the current market interest rates.

The fair value of medium term notes is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The carrying amounts of bank loans and other borrowings are estimated to approximate their fair values at the balance sheet date.

## (ii) Fair values of financial instruments carried at other than fair value

The Operating Group's and HEC's loan from ultimate holding company is interest-free and has no fixed term of repayment. Given these terms, it is not meaningful to disclose the fair value. Other than this financial instrument, the carrying amounts of the Operating Group's and HEC's financial instruments are estimated to approximate their fair value.



**30 Capital commitments**

At 31 December 2010, 2011 and 2012 and 30 September 2013, the Operating Group and HEC had capital commitments for fixed assets not provided for in the Financial Information as follows:

	At 31 December			At 30 September
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure for fixed assets authorised and contracted for . . . .	<u>1,576,293</u>	<u>1,564,675</u>	<u>1,125,424</u>	<u>1,060,186</u>
Capital expenditure for fixed assets authorised but not contracted for . .	<u>9,373,380</u>	<u>9,348,307</u>	<u>8,763,773</u>	<u>7,884,165</u>

**31 Contingent liabilities**

At 31 December 2010, 2011 and 2012 and 30 September 2013, HEC acted as the guarantor in respect of the loan facilities granted to its subsidiary of HK\$7,689,250,000, HK\$10,346,725,000, HK\$10,622,500,000 and HK\$11,328,500,000, respectively under the respective loan facility agreements.

**32 Immediate parent and ultimate controlling party**

At 30 September 2013, the directors consider the immediate parent and ultimate controlling party of HEC to be Power Assets Holdings Limited which is incorporated in Hong Kong and produces financial statements available for public use.

**33 Material related party transactions**

The Operating Group and HEC had the following material transactions with related parties during the year/ period:

**(a) Key management personnel compensation**

Remuneration for key management personnel, including amounts paid to HEC's directors as disclosed in note 6 is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Short-term employee benefits . . . . .	21,296	20,815	22,039	15,765	12,284
Post-employment benefits . . . . .	<u>3,259</u>	<u>2,496</u>	<u>2,089</u>	<u>1,590</u>	<u>1,502</u>
	<u>24,555</u>	<u>23,311</u>	<u>24,128</u>	<u>17,355</u>	<u>13,786</u>

There was no outstanding amount due from key management personnel at 31 December 2010, 2011 and 2012 and 30 September 2013.

(b) ***Ultimate holding company***

(i) ***Operating costs recharged by PAH***

Other operating costs include costs recharged by PAH to the Operating Group for management and administrative support which amounted to HK\$126,043,000, HK\$104,916,000, HK\$112,439,000, HK\$90,146,000 (unaudited) and HK\$95,068,000 for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively.

(ii) ***On-sale of gas from PAH to the Operating Group***

During the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, the aggregate amounts of fees paid by the Operating Group to Guangdong Dapeng LNG Company Limited ("Guangdong Dapeng") and CNOOC Gas & Power Group Ltd. ("CNOOC Gas") in discharge of obligations owing by PAH for the purchase of natural gas from Guangdong Dapeng and CNOOC Gas pursuant to gas sales contracts entered into by PAH with Guangdong Dapeng and CNOOC Gas (the "Gas Supply Contracts") and on-sold to the Operating Group at cost were approximately HK\$2,211,171,000, HK\$2,624,477,000, HK\$2,929,586,000, HK\$2,129,088,000 (unaudited) and HK\$2,045,346,000, respectively. The amounts paid were based on gas prices which were determined based on the gas price formula under the Gas Supply Contracts.

(c) ***Subsidiary***

Interest expenses paid/payable in respect of the loans from a subsidiary amounted to HK\$148,945,000, HK\$415,301,000, HK\$416,491,000, HK\$309,801,000 (unaudited) and HK\$330,852,000 for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013, respectively. Details of the loan balance due to a subsidiary at 31 December 2010, 2011 and 2012 and 30 September 2013 are disclosed in note 20.

### **34 Critical accounting estimates and judgements**

The methods, estimates and judgements the directors used in applying the Operating Group's accounting policies have a significant impact on the Operating Group's financial position and operating results. Some of the accounting policies require the Operating Group to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 26 and 29 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Operating Group's accounting policies are described below.

(a) ***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. The Operating Group reviews annually the useful life of an asset and its residual value, if any.

Interests in leasehold land held for 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.

The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) **Impairment**

In considering the impairment losses that may be required for the Operating Group's 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 precisely estimate 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 the assets are discounted to their present value, which requires significant judgement. The Operating Group uses 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 the net profit in future years.

**35 Possible impact of amendments, new standards and interpretations issued but not yet effective**

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

These include the following which may be relevant to the Operating Group.

	<b>Effective for accounting periods beginning on or after</b>
HKAS 32, <i>Financial instruments: Presentation</i>	
- <i>Offsetting financial assets and financial liabilities</i> . . . . .	1 January 2014
HKFRS 9, <i>Financial instruments</i> . . . . .	1 January 2015

The Operating Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far, it has concluded that the above developments are relevant to the Operating Group's financial statements but the adoption of them is unlikely to have a significant impact on the Operating Group's results of operations and financial position.

**C SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30 September 2013:

**(a) Reorganisation**

Pursuant to the Reorganisation (as defined in note 1(a) to Section B above) which will be completed immediately before the Listing, the Operating Group will be acquired by the Company via its indirect wholly owned subsidiary in the manner described below:

- (i) On 1 January 2014, HK Electric Investments Manager Limited (in its capacity as trustee-manager of the Trust) (the "Trustee-Manager") and Quickview Limited ("Quickview"), a wholly owned subsidiary of PAH, entered into a sale and purchase agreement pursuant to which Quickview transferred one ordinary share in the Company held by it to the Trustee-Manager in consideration for HK\$0.0005 which was satisfied by the Trust issuing to Quickview one unit linked to that ordinary share held by the Trustee-Manager and stapled to the one preference share held by Quickview to form one share stapled unit (the "Share Stapled Units").
- (ii) A conditional sale and purchase agreement has been entered into, among PAH (as the vendor), Treasure Business Limited ("Treasure Business") (as purchaser), an indirect wholly-owned subsidiary of the Company, the Trustee Manager and the Company pursuant to which PAH conditionally agreed to sell, and Treasure Business conditionally agreed to acquire, the entire issued share capital of HEC (the "Acquisition").

Completion of the Acquisition under the conditional sale and purchase agreement will take place immediately prior to 8:00 a.m. on the Listing Date subject to the satisfaction of the conditions set out in the section headed "History and Reorganisation — The Reorganisation" in the Prospectus. Details of the consideration and settlement for the Acquisition are also set out in the section headed "History and Reorganisation — The Reorganisation" in the Prospectus.

HEC will become an indirect wholly owned subsidiary of the Company upon completion of the Acquisition.

The Acquisition will be accounted for using the purchase method of accounting in the consolidated financial statements of the Trust and the Company and its subsidiaries. As a result, the Financial Information of the Operating Group during the Relevant Periods is not necessarily indicative of the results of operations or state of affairs of the Trust and the Company and its subsidiaries following the completion of the Reorganisation and the Listing.

**(b) Repayment of loan from PAH and loan capital from PAH**

It is expected that on or before the fifth business day following the Listing Date, the Operating Group will obtain interest-bearing loans totalling HK\$28,300 million, part of which is to be used for the repayment of the loan owing to PAH and loan capital from PAH outstanding as of the date of completion of the Acquisition.

**(c) Transfer of properties to PAH**

Certain properties with a total net book value of approximately HK\$33 million owned by the Operating Group were transferred to wholly-owned subsidiaries of PAH on 21 October 2013 at the estimated market value on that date.

**(d) Distribution of reserves**

- (i) Interim dividends of HK\$4,865 million were declared by HEC to PAH in respect of the unaudited profit attributable to the equity shareholders of HEC from 1 January 2013 to 30 November 2013. To the extent that they are not paid, dividends so declared shall form part of the loan owing to PAH which is expected to be settled by HEC on or before the fifth business day following the Listing Date as stated in note (b) above.
- (ii) It is expected that further dividends will be declared by HEC to Treasure Business in respect of any remaining profit attributable to the equity shareholders of HEC for the year ended 31 December 2013 and the period from 1 January 2014 to the date of completion of the Acquisition. Such profits will be paid by Treasure Business to PAH not later than 30 April 2014.

## D CONSOLIDATED BALANCE SHEET OF THE COMPANY AND ITS SUBSIDIARIES

	At 30 September 2013
	HK\$'000
<b>Current assets</b>	
Other receivables - deferred expenses .....	34,331
	34,331
<b>Current liabilities</b>	
Other payables - accrued expenses .....	(34,331)
	(34,331)
<b>NET ASSETS</b> .....	<u>—</u>
<b>CAPITAL AND RESERVES</b>	
Share capital .....	—
Reserves .....	—
<b>TOTAL EQUITY</b> .....	<u>—</u>

- (a) HK Electric Investments Limited (the "Company") was incorporated in the Cayman Islands on 23 September 2013 as an exempted company with limited liability under the Companies Law 2011 (as consolidated and revised) of the Cayman Islands.

As at 30 September 2013, the Company had the following subsidiaries, all of which are companies incorporated with limited liability:

Name of company	Place of incorporation	Date of incorporation	Issued share capital	Percentage of equity directly or indirectly held by the Company	Principal activity
Century Rank Limited	The British Virgin Islands (the "BVI")	30 August 2013	US\$1	100 (direct)	Investment holding
Treasure Business Limited ("Treasure Business")	The BVI	10 July 2013	US\$1	100 (indirect)	Investment holding

The Operating Group will be acquired by the Company through its indirect wholly owned subsidiary, Treasure Business, upon completion of the Reorganisation (as defined in note 1(a) to Section B above), details of which have been described in note 1(a) to Section B and note (a) to Section C above.

- (b) Neither the Company nor its subsidiaries has carried on any business since the their respective dates of incorporation and they are not expected to carry on any business up to the date of completion of the Acquisition which is the same date as the date of the Listing. The Company and its subsidiaries do not have any material assets or liabilities and will have incurred certain insignificant expenses in connection with the Acquisition and the Listing up to the date of the Listing. Such expenses totalling HK\$34 million have been incurred as at 30 September 2013 and which will be charged to equity or profit or loss in accordance with prevailing accounting standards upon the completion of the Listing.
  
- (c) The significant accounting policies adopted by the Company and its subsidiaries are consistent in all material respects with the significant accounting policies adopted by the Operating Group as set out in note 1 of Section B.

**E SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company, its subsidiaries, the Operating Group or any of the companies which comprise the Operating Group in respect of any period subsequent to 30 September 2013.

Yours faithfully

**KPMG**  
*Certified Public Accountants*  
Hong Kong