HK Electric Investments Limited
Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

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. The Company has established a principal place of business in Hong Kong at Hongkong Electric Centre, 44 Kennedy Road, Hong Kong. The principal activity of the Group during the period was investment holding.

Neither the Company nor its subsidiaries has carried on any business since their respective dates of incorporation. The Group did incur certain expenses in connection with the acquisition of the entire issued share capital of The Hongkong Electric Company, Limited (the "Acquisition") and the listing of Share Stapled Units jointly issued by HK Electric Investments (the "Trust") and the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing") during the period. Such expenses have been recognised as deferred expenses in the balance sheets of the Group and the Company and will be charged to profit or loss or equity upon the completion of the Acquisition and the Listing.

The Acquisition will be accounted for using the purchase method of accounting in the consolidated financial statements of the Trust and the Group. For details of the Acquisition, please see note 17(a)(iv).

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations promulgated by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

No comparative financial information is shown as this is the first set of consolidated financial statements of the Group since the dates of incorporation of the Company and its subsidiaries.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the period from 23 September 2013 (date of incorporation) to 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of consolidated financial statements 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.

(c) Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are consolidated into the consolidated financial statements 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 consolidated financial statements. 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 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 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(d)).

(d) Impairment of investments in subsidiaries

(i) Investments in subsidiaries 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 Group about a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, for investments in subsidiaries recognised at cost, the impairment loss is determined and recognised by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(d)(iii). 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 2(d)(ii).

(ii) 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).

(iii) 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.

(iv) 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.

2. Significant accounting policies (continued)

(e) Other payables

Other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(f) Income tax

Income tax for the period 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, in which case the relevant amounts of tax are recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

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 their 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.

(g) Translation of foreign currencies

The consolidated financial statements are presented in Hong Kong dollars which is the Group's functional and presentation currency.

Foreign currency transactions during the period 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.

(h) Cash flow statement

The Group did not have any cash flows during the current period nor did it have any cash or cash equivalents at any point throughout the current period.

The cash flows which have resulted from the operations of the Group were all paid by a fellow subsidiary, and the amounts involved have all been accounted for as movements in amount due to a fellow subsidiary.

(i) Revenue recognition

Dividend income from unlisted investments is recognised when the shareholders' right to receive payment is established.

(j) Related parties

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

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

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

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) 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).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in 2(j)(i).

(g) A person identified in 2(j)(i)(a) 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.

3. Turnover

Turnover represents dividends received and receivable during the period.

4. Profit before taxation

Auditor's remuneration of $200,000 and all other preliminary expenses of $15,700 of the Group have been borne by the ultimate controlling party, which has waived its right of recovery thereof.

Except for the above, the Group did not incur any other operating costs during the period.

5. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable profits during the period.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is exempt from any income tax in these jurisdictions.

6. Earnings per share

The calculation of earnings per share is based on the profit attributable to equity shareholders of the Company of $Nil and two ordinary shares in issue throughout the period.

7. Directors' emoluments and senior management remuneration

No remuneration was paid or is payable to any Director in his/her capacity as such during the period.

Name of Director	Fees $ million	Basic salaries, allowances and other benefits $ million	Retirement scheme contributions $ million	Bonuses $ million	**2013 Total emoluments $ million**
Executive Directors					
Fok Kin Ning, Canning [2] [6] *Chairman*	–	–	–	–	–
Wan Chi Tin [1] *Chief Executive Officer*	–	–	–	–	–
Chan Loi Shun [1]	–	–	–	–	–
Cheng Cho Ying, Francis [2]	–	–	–	–	–
Chow Woo Mo Fong, Susan [2]	–	–	–	–	–
Yuen Sui See [2]	–	–	–	–	–
Non-executive Directors					
Tso Kai Sum [3] *Deputy Chairman and Senior Adviser to the Company Board*	–	–	–	–	–
Ronald Joseph Arculli [3] [5]	–	–	–	–	–
Independent Non-executive Directors					
Fong Chi Wai, Alex [4] [6]	–	–	–	–	–
Lee Lan Yee, Francis [4] [5]	–	–	–	–	–
George Colin Magnus [4]	–	–	–	–	–
Donald Jeffrey Roberts [4] [5] [6]	–	–	–	–	–
Total	–	–	–	–	–

Notes:

(1) Appointed as Executive Directors on 23 September 2013.
(2) Appointed as Executive Directors on 5 December 2013.
(3) Appointed as Non-executive Directors on 5 December 2013.
(4) Appointed as Independent Non-executive Directors on 5 December 2013.
(5) Member of the Audit Committee.
(6) Member of the Remuneration Committee.

Directors, who were also directors or employees within the group of Power Assets Holdings Limited ("Power Assets Group") during the year ended 31 December 2013, received remuneration from Power Assets in respect of their services to the Power Assets Group. Part of such remuneration was in respect of their services to The Hongkong Electric Company, Limited ("HK Electric"). Such portion of the remuneration (including allowances, benefits in kind, discretionary bonuses and retirement schemes contribution) paid to the Directors allocated for their services to HK Electric amounted to $5,669,000.

No director earned any fees, salaries or other benefits in respect of his/her services to the Group during the period.

At 31 December 2013, there was no amount due from Directors.

The Group did not have any employees during the period.

8. Investments in subsidiaries

	2013 $
Unlisted shares, at cost	8

Details of the subsidiaries at 31 December 2013 are as follows:

Name of subsidiary	Issued share capital	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
Century Rank Limited	US$1	100 (direct)	British Virgin Islands/ Hong Kong	Investment holding
Treasure Business Limited	US$1	100 (indirect)	British Virgin Islands/ Hong Kong	Investment holding

9. Deferred expenses

Expenses were incurred during the period in connection with the Acquisition and the Listing.

The expenses will be charged to the profit or loss or equity upon the completion of the Acquisition and the Listing.

10. Amounts due to a fellow subsidiary/a subsidiary

Amounts due to a fellow subsidiary/a subsidiary are unsecured, interest-free and repayable on demand.

11. Other payables and accrued charges

All of the other payables and accrued charges are expected to be settled within one year.

12. Capital and reserves

(a) Movements in components of equity

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

The Company

	Share capital $ million	Reserves $ million	Total $ million
Balance at 23 September 2013 (date of incorporation)	–	–	–
Changes in equity for the period:			
Profit and total comprehensive income for the period	–	–	–
Issuance of new shares	–	–	–
Balance at 31 December 2013	–	–	–

(b) Share capital

Details of the changes in the Company's share capital during the period are set out below:

	2013	
	Number of shares	Nominal value $
Authorised:		
Ordinary shares		
At 23 September 2013 (date of incorporation)	760,000,000	380,000
At 31 December 2013	760,000,000	380,000
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 23 September 2013 (date of incorporation)	1	–
On 4 December 2013	1	–
At 31 December 2013	2	–

(i) On 23 September 2013, one ordinary share of $0.0005 was allotted and issued for cash at par to the initial subscriber, Sharon Pierson, who on the same day transferred that one share to Quickview Limited ("Quickview"), a wholly owned subsidiary of Power Assets.

(ii) On 4 December 2013, Quickview subscribed for and was allotted and issued one additional ordinary share of $0.0005 in the capital of the Company at par.

13. Capital management

The Group's primary objectives when managing capital are:

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

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

The Group was not subject to externally imposed capital requirements during the period.

14. Financial risk management and fair value

The Group was not exposed to any significant credit, liquidity, interest rate and currency risks in the normal course of its business during the period.

The amounts due to a fellow subsidiary and a subsidiary as at 31 December 2013 are unsecured, interest free and repayable on demand. Given these terms, it is not meaningful to disclose their fair values.

15. Immediate and ultimate controlling parties

At 31 December 2013, the Directors consider the immediate and ultimate holding companies of the Company to be Quickview and Power Assets, which are incorporated in the British Virgin Islands and Hong Kong respectively. Power Assets's shares are listed on the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States.

16. Material related party transactions

Except for the transactions and balances disclosed elsewhere in the financial statements, the Group did not enter into material related party transactions.

17. Post balance sheet events

The following significant events took place subsequent to the balance sheet date:

(a) Group reorganisation

In preparation for the Listing, a group reorganisation (the "Reorganisation") as summarised below was implemented to establish the Trust and the Group (together the "Trust Group"):

(i) On 1 January 2014, the Trust was constituted as a trust by a Hong Kong law governed Trust Deed entered into between HK Electric Investments Manager Limited ("Trustee-Manager"), as the trustee-manager of the Trust, and the Company. Trustee-Manager is an indirect wholly-owned subsidiary of Power Assets.

(ii) On 1 January 2014, resolutions of the Company were passed to change the share capital structure of the Company by increasing the authorised share capital of the Company from $380,000 to $20,000,000, of which 20,000,000,000 shares, including one issued share held in the name of Quickview, were designated as ordinary shares with a par value of $0.0005 each (the "Ordinary Shares"), and the remaining 20,000,000,000 shares, including the other issued share held in the name of Quickview, were designated as preference shares with a par value of $0.0005 each (the "Preference Shares"), in each case with the rights, preferences, privileges and restrictions as set out in the Company's amended and restated Memorandum and Articles of Association.

(iii) On 1 January 2014, Trustee-Manager and Quickview entered into a sale and purchase agreement pursuant to which Quickview transferred one ordinary share held by it to Trustee-Manager (in its capacity as trustee-manager of the Trust) in consideration for $0.0005 which was satisfied by the Trust issuing to Quickview one unit linked to that ordinary share held by Trustee-Manager and stapled to the one preference share held by Quickview to form one Share Stapled Unit in accordance with the Trust Deed.

(iv) On 14 January 2014, Treasure Business Limited ("Treasure Business", an indirect wholly owned subsidiary of the Company), as the purchaser, entered into a conditional sale and purchase agreement with Power Assets, as vendor, Trustee-Manager and the Company pursuant to which Treasure Business conditionally agreed to acquire the entire issued share capital of HK Electric.

The aggregate consideration for the Acquisition amounted to $56,056,724,869.55, which comprised:

(a) an amount of $24,030,684,994.55 which was paid by the issuance of 4,409,299,999 Share Stapled Units to Quickview, at the direction of Power Assets;

(b) an amount of $23,523,439,875.00, being the net proceeds from the issue of 4,426,900,000 Share Stapled Units pursuant to the global offering; and

(c) an amount of $8,502,600,000.00, being settled by way of the issue of a promissory note by Treasure Business using part of the proceeds from the Company Loan Facility (see note 17(c) below).

The Acquisition was completed on 29 January 2014 and HK Electric has become an indirect wholly-owned subsidiary of the Company.

(b) Listing of Share Stapled Units on the Main Board of the Stock Exchange

(i) Following the completion of the Reorganisation and the global offering, a total of 8,836,200,000 Share Stapled Units are in issue, of which, 4,426,900,000 Share Stapled Units were issued on 29 January 2014 pursuant to global offering and 4,409,299,999 Share Stapled Units were issued on 29 January 2014 as part of the Acquisition consideration.

(ii) The Share Stapled Units structure comprises (1) a unit in the Trust; (2) a beneficial interest in a specifically identified ordinary share in the Company which is linked to the unit and held by Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (3) a specifically identified preference share in the Company which is "stapled" to the unit. The Share Stapled Units were listed on the Main Board of the Stock Exchange on 29 January 2014.

(c) Company loan facility

In preparation for the Reorganisation, a facility agreement dated 10 January 2014 has been entered into between the Company and each of the participating banks set out therein, pursuant to which a dual currency term loan facility comprising a Hong Kong dollar tranche of up to approximately $5,078,900,000 and a United States dollar tranche of up to approximately US$467,000,000 (approximately $3,621,100,000) has been made available to the Company ("Company Loan Facility").

On 6 February 2014, $8,502,600,000 out of the total Company Loan Facility was applied towards redemption of the promissory note issued by Treasure Business in favour of Power Assets for settlement of part of the Acquisition consideration (see note 17(a)(iv) above).

18. Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 31 December 2013

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the period ended 31 December 2013 and which have not been adopted in these financial statements.

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

	Effective for accounting periods beginning on or after
• HKAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*	1 January 2014
• Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011), *Investment Entities*	1 January 2014
• Amendments to HKAS 36, *Recoverable Amount Disclosures for Non-financial Assets*	1 January 2014
• HKFRS 9, *Financial Instruments*	Not yet determined