

FINANCIAL REVIEW

Financial Performance and Distribution

The Trust Group's turnover and audited consolidated profit for the year ended 31 December 2014 were HK\$10,504 million and HK\$3,201 million respectively. Distributable income as calculated pursuant to the Trust Deed for the period from the Listing Date to 31 December 2014 was HK\$3,218 million whilst distributable income per SSU was HK36.42 cents.

In order to enhance the Trust Group's focus principally on distributions, the Company Board currently intends that the Company will declare a first interim dividend and, in lieu of a final dividend, a second interim dividend on a semi-annual basis, and that, for a financial year in respect of which a second interim dividend has been declared, no final dividend will be declared. The aggregate of both the first and second interim dividends, from which the Trustee-Manager Board will resolve to declare interim and final distributions by the Trust on a semi-annual basis, will be equal to 100% of the distributable income in respect of that financial year. The Boards believe that this arrangement will better align the timing for payment of distribution with the corresponding semi-annual periods, and registered holders of SSU will thereby benefit from the regularity of such distributions.

Accordingly, the Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK19.89 cents per SSU. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a second interim dividend in lieu of a final dividend in respect of the Company's ordinary shares held by the Trustee-Manager, of HK19.89 cents per ordinary share in respect of the same period. This, together with the interim distribution of HK16.53 cents per SSU, brings the total distribution to HK36.42 cents per SSU for the period from the Listing Date to 31 December 2014 representing 100% payout of distributable income per SSU.

	For the period from the Listing Date (29 January 2014) to 31 December 2014	
	HK\$ million	HK\$ million
Audited consolidated profit attributable to SSU holders		3,201
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)		4,594
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	530	
– changes in working capital	178	
– adjustment for employee retirement benefit schemes	12	
– taxes paid	(847)	
		(127)
(iii) capital expenditure payment		(1,662)
(iv) deducting		
– debt repayment	(500)	
– net finance costs	(1,132)	
		(1,632)
(v) deducting		
– reserve for future capital expenditure/debt service and/or compliance with covenants in credit facility agreement		(1,156)
Distributable income		3,218
Interim distribution		1,461
Final distribution		1,757
Distribution amount		3,218

	For the period from the Listing Date (29 January 2014) to 31 December 2014	
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU		HK16.53 cents
– Final distribution per SSU		HK19.89 cents
Total distributions per SSU		HK36.42 cents

Note:

- (a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.
- (c) Interim distribution per SSU of HK16.53 cents was calculated based on the interim distribution amount of HK\$1,461 million and 8,836,200,000 SSUs in issue as at 30 June 2014. Final distribution per SSU of HK19.89 cents was calculated based on the final distribution amount of HK\$1,757 million and 8,836,200,000 SSUs in issue as at 31 December 2014.

Capital Expenditure, Liquidity and Financial Resources

Capital expenditure during the year, excluding the addition of fixed assets from the acquisition of HK Electric on 29 January 2014, amounted to HK\$2,167 million which was primarily funded by cash from operations. Total external borrowings outstanding at 31 December 2014 were HK\$47,869 million (31 December 2013: Nil), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2014 had undrawn committed bank facilities of HK\$1,000 million (31 December 2013: Nil) and bank deposits and cash of HK\$4,630 million (31 December 2013: Nil).

Treasury Policy, Financing Activities, Capital and Debt Structure

The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. The Trust Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

Following the completion of the acquisition of HK Electric from Power Assets and the listing of Share Stapled Units on the Main Board of the Stock Exchange, a total of 8,836,200,000 Share Stapled Units are in issue, of which, 4,426,900,000 were issued pursuant to the global offering and 4,409,299,999 were issued, as part of the acquisition consideration, to Quickview Limited ("Quickview"), a wholly-owned subsidiary of Power Assets. The offer price per Share Stapled Unit was HK\$5.45 and the total equity capital raised (including Share Stapled Units issued to Quickview and before listing expenses) amounted to HK\$48,157 million.

Loan facility agreements dated 10 January 2014 were entered into between HK Electric, the Company and various lenders pursuant to which dual currency term loan

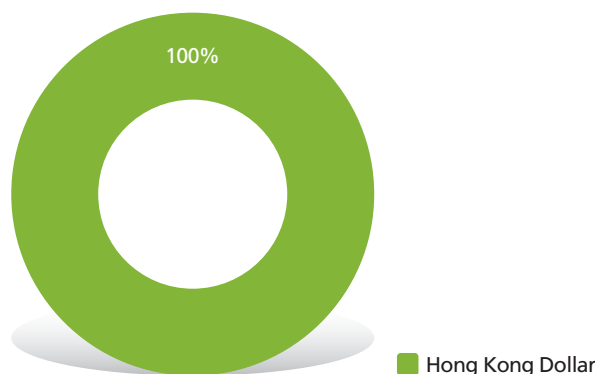
facilities (the "Facilities") comprising a Hong Kong dollar tranche of HK\$16,521 million and a United States dollar tranche of US\$1,519 million (approximately HK\$11,782 million) were made available to HK Electric while a Hong Kong dollar tranche of HK\$5,079 million and a United States dollar tranche of US\$467 million (approximately HK\$3,622 million) were made available to the Company.

On 6 February 2014, the Facilities were fully drawn down for the repayments of amounts due from HK Electric to Power Assets and by the Company for the redemption of the promissory note issued by Treasure Business Limited, a wholly-owned subsidiary of the Company, in favour of Power Assets in partial settlement of the acquisition consideration. The maturity dates of these facilities are three years from the date of the first drawdown.

On 29 January 2014, upon the spin-off of HK Electric from Power Assets and the resulting increase in bank borrowings, Standard & Poor's revised the long term credit ratings of HK Electric from "A+" to "A-" with a stable outlook. As at 31 December 2014, the net debt of the Trust Group was HK\$43,239 million (31 December 2013: Nil) with a net debt-to-net total capital ratio of 47% (31 December 2013: Not applicable).

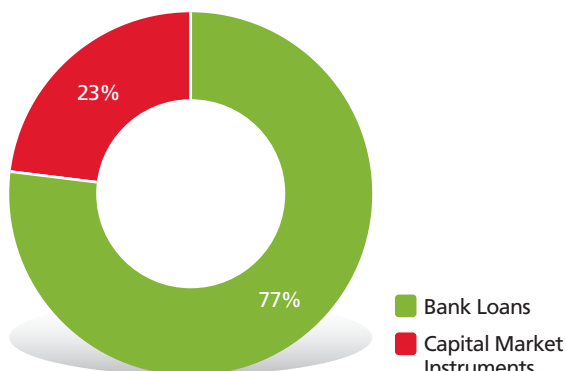
The profile of the Trust Group's external borrowings as at 31 December 2014, after taking into account interest rate and cross currency swaps, was as follows:

Debt Profile by Currency

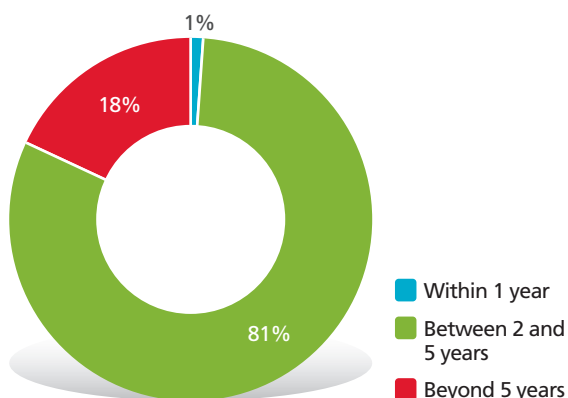


FINANCIAL REVIEW

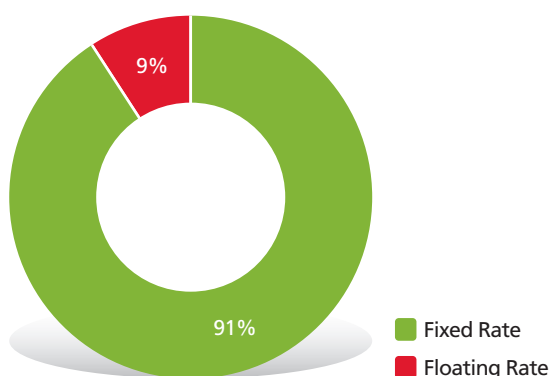
Debt Profile by Types of Borrowings



Debt Profile by Maturity



Debt Profile by Interest Rate Structure



The Trust Group's policy is to maintain a portion of its debt at fixed interest rates taking into consideration business and operational needs. Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

Currency and interest rate risks are actively managed in accordance with the Trust Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not

for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control counterparty risk exposure.

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward contracts. As at 31 December 2014, over 90% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from the foreign currency borrowings raised during the year. Such exposures are, where appropriate, mitigated by the use of cross currency and interest rate swaps.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2014 amounted to HK\$51,069 million (31 December 2013: Nil).

Charge on Assets

At 31 December 2014, no assets of the Trust Group were pledged to secure its loans and banking facilities (31 December 2013: Nil).

Contingent Liabilities

As at 31 December 2014, the Trust Group had no guarantee or indemnity to external parties (31 December 2013: Nil).

The Company had given guarantee to a third party supplier (the "Supplier") in respect of obligations of HK Electric under a gas sales contract (the "Contract"). The Contract is a take-or-pay contract with the entire amount that can only be determined based on the prevailing market rate when the gas volume is nominated. Accordingly, the entire amount, while being a contingent liability of the Company, is only reflected to the extent of gas nominated and the related amount currently due to the Supplier in the consolidated statement of financial position of the Trust and the Company.

Employees

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the year ended 31 December 2014, excluding directors' emoluments, amounted to HK\$973 million (2013: Nil). As at 31 December 2014, the Trust Group employed 1,813 permanent employees (31 December 2013: Nil). The increase in the remuneration costs and the number of permanent employees are due to the acquisition of HK Electric. No share option scheme is in operation.