
HISTORY AND REORGANISATION

OUR HISTORY

Over the last 120 years, we have been generating and supplying electricity to Hong Kong, serving a pivotal role throughout Hong Kong's economic transformation. We can trace our origins back to 1889 when HEC, our principal operating subsidiary, was incorporated in Hong Kong. Since lighting up the first electric street lamps in Hong Kong in 1890, we have continued to serve the community in Hong Kong for generations. We have been and are the sole electricity provider to Hong Kong Island and Lamma Island.

We have continually expanded our capacity to meet the ever growing energy needs of Hong Kong. HEC's first power station in Wan Chai commenced commercial operations in 1890. A second power station at North Point commenced commercial operations in 1919. A third power station at Ap Lei Chau commenced commercial operations in 1968. Since 1990, Lamma Power Station has been our sole power generation facility and is located on an approximately 85.8-hectare site at Po Lo Tsui on Lamma Island. As at 30 September 2013, the Lamma Power Station had an aggregate installed capacity of approximately 3,737 MW and we had approximately 568,000 registered customers on Hong Kong Island and Lamma Island. For further details, see "*Business*".

Our operations are subject to the Scheme of Control entered into with the Hong Kong Government. The first Scheme of Control was entered into in 1980 for a term of 15 years beginning on 1 January 1979 and it was renewed in 1993 for a similar term until the end of 2008. The current Scheme of Control was entered into on 7 January 2008 for a term of 10 years from 1 January 2009 to 31 December 2018, with an option for the Hong Kong Government to extend it for a further term of five years ending on 31 December 2023. For further details, see "*Scheme of Control and Regulatory Overview*".

Our Key Milestones

1889	HEC was incorporated.
1890	HEC commenced operations and lit up Hong Kong's first electric street lamps, with two steam driven generators installed at the newly constructed Wan Chai power station.
1919	The North Point power station commenced commercial operations.
1922	The Wan Chai power station was decommissioned.
1968	The Ap Lei Chau power station commenced commercial operations.
1976	The ownership structure of HEC was reorganised by way of a scheme of arrangement pursuant to which HEC became a wholly-owned subsidiary of PAH (formerly known as Hongkong Electric Holdings Ltd.) and the original shareholders of HEC (other than PAH) became shareholders of PAH. Shares in PAH then became listed in Hong Kong, and the listing status of HEC in Hong Kong was withdrawn.
1978	The North Point power station was decommissioned.
1980	HEC entered into the first Scheme of Control with the Hong Kong Government for a term of 15 years beginning on 1 January 1979.
1982	The Lamma Power Station commenced commercial operations.
1983	Stage one of the construction of the Lamma Power Station was completed.

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- 1985** HWL acquired a 34% shareholding interest in PAH from Hongkong Land Holdings Limited.
- 1989** The Ap Lei Chau power station was decommissioned.
- 1993** Stage two of the construction of the Lamma Power Station was completed. The Scheme of Control was renewed for another term of 15 years.
- 1997** CKH, HWL and CKI went through a group reorganisation pursuant to which the shares in PAH owned by HWL and its subsidiaries were transferred to CKI.
- 2001** Stage three of the construction of the Lamma Power Station was completed.
- 2006** The wind turbine on Lamma Island (Lamma Winds) commenced commercial operations and was Hong Kong's first commercial-scale wind turbine station.
- 2008** HEC entered into the current Scheme of Control for a term of 10 years, with an option for the Hong Kong Government to extend for a further term of five years.
- 2010** HEC completed the installation of a 550 kW commercial-scale solar power system in Hong Kong, which is the largest of its kind and the first large-scale project applying the amorphous silicon TFPV panels in Hong Kong.
- 2013** The Company was incorporated. The 2013 interim review of the current Scheme of Control and the determination of the 2014-2018 Development Plan were agreed between the Hong Kong Government and HEC. For further details, see "*Scheme of Control and Regulatory Overview — Scheme of Control*".
- 2014** HK Electric Investments was established.

THE REORGANISATION

In preparation for the Global Offering, the Reorganisation is being implemented to establish the Trust Group.

1. Incorporation of various companies

Between July and September 2013, the following companies were incorporated:

- (a) Quickview and Sure Grade were incorporated in the BVI, and became wholly-owned subsidiaries of PAH;
- (b) the Trustee-Manager was incorporated in Hong Kong, and became a wholly-owned subsidiary of Sure Grade;
- (c) the Company was incorporated in the Cayman Islands, and became a wholly-owned subsidiary of Quickview;
- (d) Century Rank was incorporated in the BVI, and became a wholly-owned subsidiary of the Company; and

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- (e) Treasure Business was incorporated in the BVI, and became a wholly-owned subsidiary of Century Rank.

2. Subscription for one share of the Company

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

3. Constitution of HK Electric Investments

On 1 January 2014, HK Electric Investments was constituted by the Trustee-Manager and the Company pursuant to the Trust Deed.

4. Transfer of the Company to HK Electric Investments

On 1 January 2014, the Trustee-Manager and Quickview entered into a sale and purchase agreement pursuant to which Quickview transferred one Ordinary Share held by it to the Trustee-Manager (in its capacity as trustee-manager of HK Electric Investments) in consideration for HK\$0.0005 which was satisfied by HK Electric Investments 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 in accordance with the Trust Deed.

5. Acquisition of HEC

On 14 January 2014, Treasure Business, as the purchaser, entered into the Sale and Purchase Agreement with, among others, PAH, as the vendor, pursuant to which Treasure Business conditionally agreed to acquire the entire issued share capital of HEC.

Conditions to completion of the Acquisition

Completion of the Acquisition under the Sale and Purchase Agreement is conditional upon (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Share Stapled Units in issue and to be issued pursuant to the Reorganisation and the Global Offering on the Main Board of the Stock Exchange and such approval not having been withdrawn immediately prior to 8:00 a.m. on the Listing Date; (b) the Offer Price having been agreed between the Joint Global Coordinators (on behalf of the Underwriters), Quickview, the Trustee-Manager and the Company; (c) the International Underwriting Agreement having been executed and delivered on or about the Price Determination Date; (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement not having been terminated immediately prior to 8:00 a.m. on the Listing Date; and (e) there being no material breach of the representations, warranties and/or undertakings set out in the Sale and Purchase Agreement or any other terms of the Sale and Purchase Agreement on the part of PAH.

Subject to the satisfaction of the conditions referred to above, completion of the Acquisition (the “**Completion**”) will take place immediately prior to 8:00 a.m. on the Listing Date (the “**Completion Date**”).

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Consideration for the Acquisition

The consideration for the Acquisition (the “**Acquisition Consideration**”), which will reflect the value of HEC implied by the Offer Price, will be payable on the Completion Date and will be an amount equal to:

A – B

where:

- (1) “**A**” is the sum of:
 - (a) the net proceeds from the issue of the Offer Share Stapled Units pursuant to the Global Offering (being the gross proceeds less underwriting commissions and any incentive fees payable to the Underwriters under the Underwriting Agreements) (for the avoidance of doubt, excluding any exercise of the Over-allotment Option);
 - (b) the value (at the Offer Price) of the Consideration Share Stapled Units to be issued to Quickview (at the direction of PAH); and
 - (c) HK\$8,700.0 million, being a sum equal to the gross amount to be drawn down by the Company under the Company Loan Facility or, where United States dollars are drawn, its HK\$ equivalent at an exchange rate agreed by the parties to the Sale and Purchase Agreement, and
- (2) “**B**” is the sum of:
 - (a) HK\$78.3 million, being an amount equal to the front end fee to be paid by the Company in respect of the Company Loan Facility or, where United States dollars are paid, its HK\$ equivalent at an exchange rate agreed by the parties to the Sale and Purchase Agreement;
 - (b) HK\$109.1 million, being the amount agreed as the costs and expenses of the Global Offering (excluding underwriting commissions and any incentive fees payable to the Underwriters under the Underwriting Agreements); and
 - (c) HK\$10.0 million, being an amount set aside and retained by the Company as working capital of the Group,

each of the amounts in (b) and (c) of “**B**” being an agreed amount for the purposes of the calculation of the Acquisition Consideration.

Based on the above formula, the Acquisition Consideration will be determined primarily based on the valuation achieved in the Global Offering. Assuming the Listing Date is 29 January 2014 and assuming an Offer Price of HK\$5.88 (being the mid-point of the Offer Price Range), the anticipated amount of the Acquisition Consideration is HK\$59,678.6 million (assuming the full payment of the discretionary incentive fee under the Underwriting Agreements).

Upon the amount of the Acquisition Consideration having been determined, the Trustee-Manager and the Company will announce such amount.

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Settlement of the Acquisition Consideration

The Acquisition Consideration will be settled on the Completion Date as follows:

- (a) the Consideration Share Stapled Units will be issued at the Offer Price (credited as fully paid) to Quickview, at the direction of PAH; and
- (b) the Acquisition Consideration less the value (at the Offer Price) of the Consideration Share Stapled Units, will first be paid to PAH using the net proceeds from the Global Offering (for the avoidance of doubt, excluding any exercise of the Over-allotment Option), and as to the balance, will be settled by way of the issue of a promissory note (the “**Promissory Note**”) by Treasure Business to PAH of a principal amount equal to such balance.

The Promissory Note can, at the option of Treasure Business, be redeemed by payment of cash in Hong Kong dollars and/or United States dollars (using an agreed exchanged rate). The Promissory Note is expected to be redeemed on or before the fifth business day following the Listing Date (the “**Payment Date**”) using part of the proceeds from the Company Loan Facility. The Promissory Note will not bear any interest before the Payment Date, but will bear interest from the Payment Date onwards at the rate charged to the Company for the Company Loan Facility.

Stamp Duty

Stamp duty payable on the transfer of HEC to Treasure Business will be paid by PAH.

Profit Attributable to the Equity Shareholders of HEC

All profit attributable to the equity shareholders of HEC up to Completion shall belong to PAH, and all such profit as from Completion shall belong to Treasure Business. Such profit up to Completion will be paid or accounted for by the Group to PAH in the following manner:

- (i) Interim dividends of HK\$4,865.2 million were declared by HEC prior to the Latest Practicable Date in respect of such profit from 1 January 2013 to 30 November 2013. Dividends so declared, to the extent that they are not paid to PAH before Completion, will form part of the Inter-company Loans as at the Listing Date and are expected to be settled by HEC on or before the fifth business day following the Listing Date.
- (ii) After the consolidated financial statements of the Operating Group for the financial year ended 31 December 2013 and for the period from 1 January 2014 up to the Completion Date have been prepared and audited to determine the profit for such periods, Treasure Business will procure that a further interim dividend in respect of the remaining part of such profit up to the Completion Date is declared by HEC to Treasure Business and Treasure Business will then pay to PAH the same amount by no later than 30 April 2014.

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6. Issue of Share Stapled Units on the Listing Date

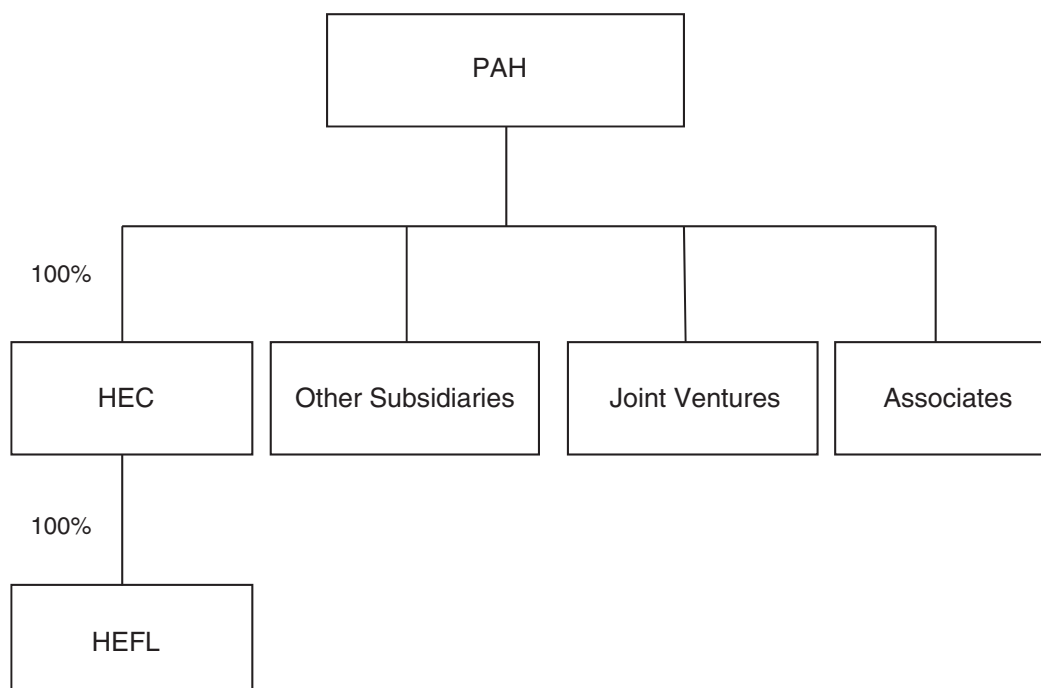
On the Listing Date:

- (a) HK Electric Investments and the Company will jointly issue the Consideration Share Stapled Units at the Offer Price (credited as fully paid) to Quickview, at the direction of PAH; and
- (b) subject to and following the completion of the step referred to in paragraph 6(a) above, HK Electric Investments and the Company will jointly issue the Offer Share Stapled Units at the Offer Price to investors in the Global Offering.

Under the Global Offering, the Offer Price is subject to agreement by Quickview, the Trustee-Manager and the Company as described in “*Structure of the Global Offering*”. The Trustee-Manager and the Company will also agree on the apportionment of the Offer Price between the subscription price for the Units and the Preference Shares. For the purposes of the Global Offering, the Trustee-Manager and the Company have agreed that the Trustee-Manager (in its capacity as trustee-manager of HK Electric Investments) will subscribe for the Ordinary Shares at a subscription price equal to the Offer Price less (i) the amount of the Offer Price agreed to be allocated to the subscription price for the Preference Shares and (ii) any costs and expenses properly incurred and paid by the Trustee-Manager in connection with the Global Offering.

CORPORATE STRUCTURE PRIOR TO THE REORGANISATION

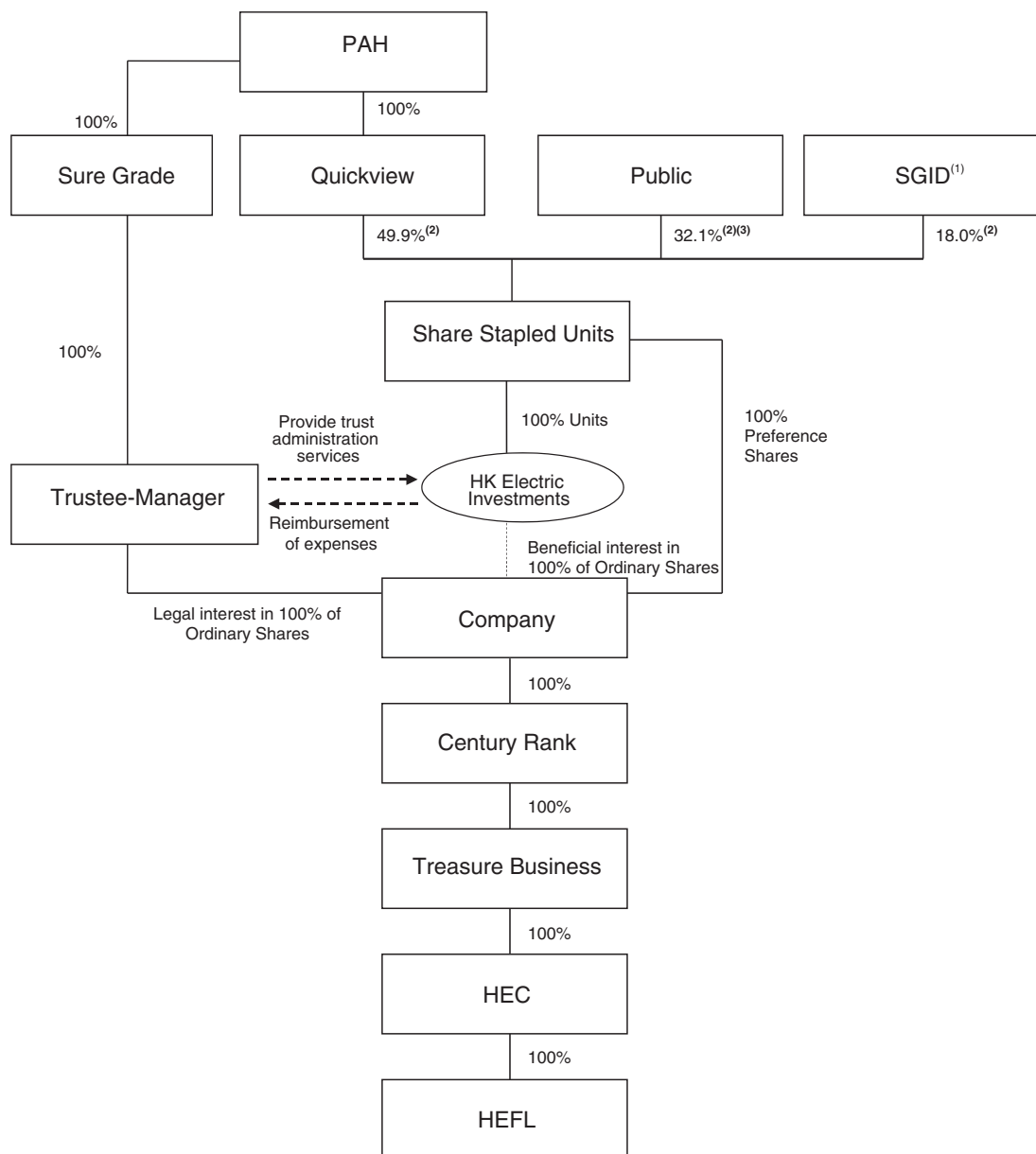
Below is a simplified corporate chart of the PAH Group (including HEC and HEFL) prior to the Reorganisation:



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CORPORATE STRUCTURE FOLLOWING THE REORGANISATION AND THE GLOBAL OFFERING

Below is a simplified corporate structure chart of the Trust Group and of the ownership of Share Stapled Units immediately following the completion of the Reorganisation and the Global Offering (assuming that the Over-allotment Option is not exercised):



Notes:

- (1) Pursuant to the SGID Agreement, SGID, a wholly-owned subsidiary of the State Grid Corporation of China, has agreed to subscribe at the Offer Price for Share Stapled Units representing 18.0% of the Share Stapled Units in issue immediately following the completion of the Reorganisation and the Global Offering. See “*Cornerstone Investors*” for further details. SGID’s percentage holding of Share Stapled Units will not be affected by any exercise of the Over-allotment Option and will not count towards the public float of Share Stapled Units.
- (2) Assuming the Over-allotment Option is exercised in full, the respective percentage holding of PAH, the public and SGID in the Share Stapled Units will be approximately 42.4%, 39.6% and 18.0%, respectively.
- (3) The holding of Share Stapled Units by the public includes the 71,100,500 Share Stapled Units (representing approximately 0.8% of the total Share Stapled Units in issue immediately following the completion of the Reorganisation and the Global Offering and assuming an Offer Price of HK\$5.45 (being the Minimum Offer Price)) to be subscribed for by OIF, a sovereign wealth fund of the Government of Oman, pursuant to the OIF Agreement. See “*Cornerstone Investors*” for further details.

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SPIN-OFF OF HEC FROM PAH

The directors of PAH have stated in the PAH Circular that the directors of PAH believe that the Spin-off is in the interests of PAH and the PAH Shareholders taken as a whole, for the following reasons:

(i) Enhancement of PAH's existing value

The PAH Board believes that the Spin-off will unlock value for the PAH Shareholders by better identifying and establishing the fair value of the Group's business. In addition, the PAH Board believes that the Spin-off will crystallise value for PAH's international businesses through more visibility and additional disclosure of their financial information, including revenues, profits, total assets and total liabilities of the Major JVs. The PAH Board anticipates that such value will represent a substantial enhancement to PAH's existing value within the confines of PAH's listing, which will, in turn, increase the value of the PAH to the benefit of all of the PAH Shareholders.

(ii) Significant proceeds to PAH from the Spin-off

PAH will receive substantial proceeds from the disposal of PAH's shareholding interest in HEC, which will enable PAH to continue to pursue new acquisitions in the global power industry, while maintaining a strong financial profile.

(iii) More defined focus and efficient resource allocation

The PAH Board believes that the Spin-off will allow PAH's management to focus its time and resources more effectively on identifying new acquisition and investment opportunities to further develop its power portfolio outside of Hong Kong.

(iv) Alignment with the appropriate investor base

The Spin-off will enable PAH's remaining business to be valued on a stand-alone basis, with more visibility on its growth profile and asset quality. This will help PAH attract investors who are specifically seeking to invest in a reputable and established global player to gain direct exposure to a balanced portfolio of carefully-selected, world class power businesses with predictable income streams and future acquisition growth.

The Spin-off has complied with the requirements of Practice Note 15 of the Listing Rules and was approved by the PAH Shareholders at the extraordinary general meeting of PAH held on 6 January 2014.