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中電控股有限公司

CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

(Stock Code: 00002)

Profit Warning

Impairment of Goodwill of EnergyAustralia's Customer business

Highlights

- Against the background of an otherwise strong operating financial performance of the Group for 2023, the Company expects that an approximately HK\$5.9 billion impairment of goodwill of EnergyAustralia's Customer business will be made for the year ended 31 December 2023.
- The operating financial performance of the CLP Group for 2023 has been strong. Based on the unaudited consolidated management accounts for the year ended 31 December 2023:
 - ~ CLP Group's Operating Earnings before fair value movements are expected to be approximately HK\$10.1 billion, up more than 30% compared to 2022 (HK\$7.6 billion); and
 - ~ CLP Group's Total Earnings before the goodwill impairment for EnergyAustralia are expected to be approximately HK\$12.5 billion including a favourable fair value movement of approximately HK\$2.1 billion (2022: unfavourable HK\$2,979 million), a strong rebound from the Total Earnings of HK\$924 million for 2022.
- As a result, CLP Group's Total Earnings for 2023 are expected to be approximately HK\$6.6 billion after taking into account the non-cash goodwill impairment for EnergyAustralia.

This announcement is made by CLP Holdings Limited (the "Company", "we" or "our", together with its subsidiaries, the "CLP Group") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Impairment of goodwill of EnergyAustralia's Customer business and impact on expected results for the CLP Group for 2023

The Company expects to make an impairment charge against EnergyAustralia's Customer business goodwill of approximately HK\$5.9 billion in its consolidated accounts for the year ended 31 December 2023. The impairment is a non-cash item with no impact on Operating Earnings. It is booked as an item affecting comparability and as such, it is expected to significantly reduce CLP Group's Total Earnings to be reported for the full year 2023.

To put this expected material impairment in perspective, the operating financial performance of the CLP Group for 2023 has been strong. Based on CLP Group's unaudited consolidated management accounts for the year ended 31 December 2023:

- (i) Operating Earnings – CLP Group's Operating Earnings before fair value movements are expected to be approximately HK\$10.1 billion, a strong improvement compared to 2022 (HK\$7.6 billion); and
- (ii) Total Earnings –
 - a. It is expected that there will be a fair value (mark-to-market) gain of approximately HK\$2.1 billion (2022: loss of HK\$2.9 billion) on EnergyAustralia's forward energy contracts accounted for in the Group's statement of profit or loss for 2023; and
 - b. CLP Group's Total Earnings are expected to improve considerably compared to HK\$924 million in 2022 with Total Earnings before EnergyAustralia's Customer business goodwill impairment expected at approximately HK\$12.5 billion and HK\$6.6 billion after taking into account the approximately HK\$5.9 billion goodwill impairment (with no tax impact) for EnergyAustralia.

In terms of the strong operating financial performance of the CLP Group for 2023, there was, in large part, the dependable contribution from the Hong Kong Scheme of Control business; CLP China maintained a strong financial performance; Apraava Energy continued to demonstrate the ability to grow the bottom line of the business; and EnergyAustralia's results showed a significant improvement in operating earnings before fair value movements from the heavy losses of HK\$2.3 billion in 2022 to close to breakeven.

This is not the formal announcement of the results of the CLP Group for the year ended 31 December 2023. The Company will, in the ordinary course, make the formal results announcement around the end of February once the accounts for the full year 2023 have been audited by the Company's external auditors, reviewed and approved by the Company's Audit & Risk Committee and Board of Directors, respectively. The finalised results, including the amount of impairment, may therefore differ from the information set out in this announcement.

Recent Developments – EnergyAustralia’s Customer business

Background

The EnergyAustralia Customer business is a cash generating unit and the goodwill as stated in the unaudited consolidated management accounts of the CLP Group as at 31 December 2023 was HK\$8.4 billion, before taking into account the expected goodwill impairment of approximately HK\$5.9 billion. The goodwill for the Customer business arose from EnergyAustralia’s past acquisitions of two retail businesses in 2005 and 2011. As required by the applicable accounting standards, an impairment review is required to be performed annually or more frequently if there is an impairment trigger. Impairment occurs when the expected recoverable amount of a cash generating unit is below its carrying value.

Expected goodwill impairment – Management’s preliminary assessment

As part of the 2023 year end process, impairment testing has been conducted on the carrying value of EnergyAustralia’s Customer business. This considered the general financial and economic factors as well as the market conditions that have become more challenging over the second half of 2023. EnergyAustralia’s Customer business was affected by adverse energy retail market trends, notably, margins are under increasing pressure as a result of rising supply costs and intensifying competition; whilst higher interest rates have also negatively impacted the Customer business’ cost of capital. Some key trends and relevant data are outlined below:

- (i) pressure on the market’s operating margins. As a reference, the retail margins as a percentage of the residential cost stack (being the industry cost components for retail electricity customers) in the National Electricity Market have fallen to a low of 2.3% for the Australian financial year 2022/2023 (as per the Australian Competition & Consumer Commission “Inquiry into the National Electricity Market” December 2023 Report). The pressure on margins is mainly due to factors explained in the below sub-paragraphs (ii) and (iii);
- (ii) at the macro level, the Australian economy is experiencing a period of high inflation and interest rates with inflation at 4.3% as at November 2023 and the prevailing Australian cash interest rates target was at 4.35% as at December 2023. The current outlook is for a period of inflation above the Reserve Bank of Australia’s inflation target range of 2-3% and combined with interest rates at these high levels, these are expected to drive up the overall operating costs for the Customer business and negatively affect its cost of capital; and
- (iii) the competition in the energy retail markets has intensified significantly and the outlook is that the intense competition will remain for a period of time.

In aggregate, the combination of these factors have had an unfavourable impact on the assumptions used for the value-in-use model, this led to the decline in the valuation of the Customer business and is expected to result in a goodwill impairment of approximately HK\$5.9 billion. EnergyAustralia’s Customer business has a strong brand and is Australia’s third largest energy retail business with 2.4 million customer energy accounts across 1.6 million households and business customers. Despite the write down of some of the goodwill accounted for from past acquisitions, EnergyAustralia’s Customer business remains a key component of the EnergyAustralia integrated portfolio.

Other Important Information

This announcement is based on management's preliminary assessment with the information available and has yet to be reviewed by the Company's auditor. Furthermore, the Company's Board of Directors and Audit & Risk Committee will be assessing the impairment as part of the review process of the CLP Group's audited consolidated accounts for the year ended 31 December 2023. The audited full year results of the CLP Group for the year ended 31 December 2023 will be announced by the Company in late February 2024.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Michael Ling
Joint Company Secretary

Hong Kong, 30 January 2024

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The Directors of CLP Holdings as at the date of this announcement are:

Non-executive Directors:

The Hon Sir Michael Kadoorie, Mr Andrew Brandler,
Mr J.A.H. Leigh, Mr Philip Kadoorie and
Mrs Yuen So Siu Mai Betty

Independent Non-executive Directors:

Sir Rod Eddington, Mr Nicholas C. Allen, Mrs Zia Mody,
Ms May Siew Boi Tan, Ms Christina Gaw, Mr Chunyuan Gu,
Mr Chan Bernard Charnwut and Ms Wang Xiaojun Heather

Executive Directors:

Mr Chiang Tung Keung and Mr Richard Lancaster