

08 May 2012

**CLP Holdings Limited - AGM Media Briefing**  
**The Hon Sir Michael Kadoorie's Opening Remarks**

Ladies and Gentlemen,

I am pleased to report on a solid performance by the CLP Group in 2011. The Group's operating earnings reached HK\$10,312 million, an increase of 12.7% compared to the previous year. The Group's total earnings, which take into account a number of one-off items, were HK\$9,288 million, 10.1% lower than those for 2010.

At the end of last year, and for the first time in our history, more than half of CLP's assets were located outside Hong Kong. This reflects the ongoing implementation of our strategy to diversify our business beyond CLP's original Hong Kong base.

Even so, the Hong Kong electricity business remains the largest single source of earnings for CLP and its shareholders. Given the importance of this business to the Group as a whole, I wish to focus on issues relating to our Hong Kong electricity business. I believe that this is also an opportune moment for such a discussion, since we are moving through the final days of the existing SAR administration, and awaiting the arrival of a new Government under a new Chief Executive.

Let me start my remarks by emphasizing that, as I believe is well-known, I am not a political figure. Like the overwhelming majority of Hong Kong people, I did not vote in the recent Chief Executive election. Again like the overwhelming majority of Hong Kong people, my only interest was that this process would lead to confident, capable and committed leadership to carry our society forward in the years to come.

As with any new Government, the incoming administration will face the challenge of deciding where the line is to be drawn between what Government should do, and do well, and those matters which should be left to the responsibility and enterprise of the private sector and private individuals. This is a subject which I wish to address today, with particular reference to the energy sector.

In recent times, including in the context of the tariff increase, there have been increasing calls for increased Government and legislative involvement, intervention and control over Hong Kong's electricity industry. I do not doubt the sincerity of those voices. What I would

challenge are the choices being made regarding those matters which Government should do and those which are best left to the private sector.

On those few clear days when I can look across the harbour from my office in Central, I see the West Kowloon reclamation and the site of the old Kai Tak Airport. Both have been lying vacant and unused for many years. If the speed and efficiency of decision-taking and implementation by CLP in managing and operating the electricity supply system for Kowloon and the New Territories had matched those standards, I would be speaking to you today in darkness.

Since 1988, CLP has invested to bring emissions-free nuclear energy to Hong Kong, we have built one of the largest combined cycle gas-fired power stations in the world – using natural gas. We have added over 7,800 sub-stations and over 8,400 kilometers of transmission line to our system. We have embraced the use of digital technology and innovative information systems to bring supply reliability and customer service to outstanding levels of performance.

The quality of Hong Kong's electricity supply is often overlooked and taken for granted. So is the importance of the commitment made by CLP's capital providers. Much criticism is directed to the profit made by CLP. Less attention is given to the fact that, since 1998 alone, CLP's shareholders and lenders have invested more than HK\$80 billion in ensuring that Hong Kong has the electricity infrastructure it needs. Yet, our profits from the SOC business were actually lower last year than in 1998.

As a responsible corporate citizen, CLP has demonstrated its ability to deliver the world-class electricity supply which our community deserves and expects. This is a private sector success story.

Choices about the future of Hong Kong's electricity supply should be made by the community and by Government, speaking and acting on behalf of the community. Those choices must aim to strike society's preferred balance between cost, supply reliability and security, customer service and environmental performance. CLP will contribute to this process in two vital ways. First, we offer an informed, authoritative and reasoned voice to the public debate on choices about Hong Kong's electricity service and their consequences. Secondly, whatever choices are made, CLP will implement these as effectively, responsibly and efficiently as possible.

For its part, the SAR Government must explain the choices involved in its policy decisions, the consequences for the power sector and, in particular, the resulting cost increases for consumer.

In recent times, Government with the support of our legislature has chosen to move towards cleaner generation and to place greater weight on improvement in environmental performance.

In particular, in August 2008 the SAR Government intervened directly in the provision of fuel for power generation in Hong Kong by entering into a Memorandum of Understanding with the National Energy Administration regarding Hong Kong's future energy supply, including long-term gas supplies from the Mainland.

To implement these policy choices will require CLP to use twice the current volumes of natural gas. And the cost of gas will be three times more expensive than the current gas supply which was secured twenty years ago. As a result, we estimate that, by 2015, fuel costs alone will increase by around 250% from current levels. This is the equivalent of about a 40% increase in overall costs to the consumers. This will require regular and substantial tariff increases over the next four years. Let me emphasise that this increase represents the price of gas paid to Mainland suppliers. None of the increase is for the benefit of CLP shareholders and none of this increase is attributable to the SoC. Irrespective of whatever regulatory regime is in place, the costs of fuel must ultimately be paid by Hong Kong electricity customers.

Let me return to my earlier theme of the attribution of responsibilities between Government and the private sector.

Hong Kong may have little in the way of natural resources. However, my background and my own experience allows me to say that there are no limits to what Hong Kong people can achieve once their own energy is released. Our city has the potential to be a world city in Asia, a regional centre for excellence in education, financial services, environmental technology, medical services, information systems and much else. The capabilities of Hong Kong people are such that the list is as long as we choose to make it.

The challenge, the obligation and the opportunity for the incoming SAR Government is to create and realize a vision for Hong Kong's future. This will require a positive, productive and co-operative relationship with our legislature.

Hong Kong is CLP's home. We have the capability to power the transformation in our society. Building on the excellence of our existing electricity supply infrastructure, we can work towards even lower emission levels, even greater supply reliability, the application of smart grid technology to deliver power more efficiently and the deployment of smart metering to allow customers to make more informed choices about the way in which they use energy.

CLP's task is to deliver the energy to drive that change. We have done this for the past century. We can do this for many decades to come.

Thank you.